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TUESDAY APRIL 20 1999

Corporate lifespans
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WORLD NEWS

EBRD warns it may cut lending in wake of Russian crisis

The European Bank for Reconstruction and Development, the multilateral bank for the countries of the former Soviet bloc, could *cut its lending in the wake* of the Russian crisis, Horst Köhler, the bank's president, said. **Page 16**

New government for India 'in days' India's Congress party said it would form a government to replace the ousted Bharatiya Janata party coalition "within days", but it plans to approve the BJP's budget tomorrow. **Page 16**

Turkish nationalists set for power *Bülent Ecevit*, Turkey's prime minister, was set to form a gov*ernment with the Nationalist* Action party, the far-right group *that secured the second largest* share of the vote in general elections. **Europe, Page 3**

No breakthrough in Ulster talks Five hours of talks between Northern Ireland's political parties in London failed to achieve a breakthrough in the deadlock over terrorist disarmament. But all the parties ruled out putting the peace process on hold until the autumn. **Britain, Page 11**

Rome tries to salvage reforms Italy's leading politicians were trying to salvage the country's drive for political and institutional reform after a referendum on Sunday failed to end proportional representation. **Europe, Page 3**

Winter Olympics loses sponsor The Olympic corruption scandal claimed its first sponsorship vic*tim after Johnson & Johnson* said it had abandoned plans for a *$30m sponsorship deal with the* 2002 Winter Olympics in Salt Lake City. **US, Page 5**

Australian alarm over East Timor The Australian government signalled its growing alarm over escalating violence in East Timor with a sudden decision by John Howard, prime minister, to visit Indonesia. **Asia-Pacific, Page 8**

Gadaffi brokers 'Congo peace' *Muammer Gadaffi*, the Libyan leader, has brokered a peace *agreement between the Ugandan* and Congolese presidents, aimed *at ending the nine-month* war in the Democratic Republic of Congo, Libyan *state media* said. **International, Page 6**

Report on Africa's child soldiers More than 120,000 children, some as young as seven, are serving as soldiers in Africa's wars, according to a report. **International, Page 6**

Colombia renews guerrilla talks *The Colombian government* will renew talks with leftwing guerrilla *leaders today in what may* prove the last realistic chance of hammering out a specific agenda to end 35 years of fighting. ***Latin America*, Page 5**

Nigeria to lay off civil servants Nigeria's *military* government is quietly preparing to lay off tens of thousands of civil servants. **International, Page 6**

US taxpayers field $5bn sports bill *Major league* ball parks, stadiums and arenas have cost US taxpayers more than $5.2bn since 1989 and will cost at least another $9bn in coming years, says a new study. **US, Page 5**

BUSINESS NEWS

Europe's retail giants forge new alliances

Europe's retail sector was braced for a long-awaited round of consolidation as some of the region's leading companies, *including Kingfisher* and Asda in the UK and Karstadt and Quelle in Germany, announced alliances aimed at creating a super league of *retailers*. **Companies and Markets, page 17; Lex, Page 16**

Fininvest, $10bn holding company of Silvio Berlusconi, is planning to transform itself into a pan-European media and entertainment conglomerate to rival US media and entertainment groups such as Time-Warner. **Europe companies, Page 18**

Gucci, embattled Italian fashion company, has written to *LVMH*, French luxury goods group, *promising to recommend* acceptance of an LVMH offer if it makes an unconditional offer of $88, valuing Gucci at $9bn. **Europe companies, Page 18**

Citigroup, financial services conglomerate, launched a bullish assessment of its prospects as its first quarter earnings showed profits up 12 per cent to $2.42bn. **Companies and Markets, Page 17; Fortunes diverge, Page 20**

Volvo, Swedish automotive group, announced a SKr26.7bn *($3.21bn) capital gain on the sale* of its car division to Ford of the US and pledged to use the proceeds for a share buy-back and acquisitions. **Europe companies, Page 18**

Hyundai and Daewoo, South Korea's two *biggest* conglomerates, announced restructuring plans to cut their large debts in response to growing government pressure. **Companies and markets, Page 17; Lex, Page 16; Daewoo shipbuilding sale, Page 22**

Lloyd's of London signed a five-year agreement with six of the world's top insurers to cover its central mutualised fund for £350m ($563m) – increasing to £800m the resources that support the market's policies. **UK news, Page 10**

The World Trade Organisation authorised the US to impose $191.4m in trade sanctions on European Union goods as retaliation for the EU's failure to make its banana import regime consistent with international trade rules. **World Trade, Page 4**

Deloitte Touche Tohmatsu, the global Big Five firm, has announced plans to integrate financially its *national* firms into a single organisation covering 90 per cent of its $9bn *revenues*. **North American companies, Page 20**

Austrian Airlines, one of Europe's fastest-growing and most profitable carriers, is seeking to raise around €250m ($268m) in new equity. **Europe companies, Page 18**

Euro Markets
News, analysis and statistics on the euro currency zone, covering foreign exchange, bond and equity markets. **Page 27**

Telecoms boards meet to discuss $180bn link

Deutsche Telekom and Telecom Italia merger would face regulatory hurdles

By Paul Betts in Milan, William Lewis in New York and Alan Cane in London

The supervisory boards of *Deutsche Telekom* and Telecom Italia were meeting last night to *approve a merger* that would create the world's largest telecom*munications group*.

The proposed deal would *change the balance of power* in the global telecoms industry, but *it faces huge regulatory hurdles* and the difficulty of unravelling alliances with other operators.

Governments in France, Ger*many and Italy* are awaiting details of the plan, which raises *sensitive issues of ownership* and control of a strategic industry.

Telecom Italia *announced* last night that it was postponing a *press conference in London today* where the planned alliance was *expected to* be unveiled. The announcement came in the mid*dle of a board meeting that* had already lasted seven hours.

The delay fuelled speculation that Franco Bernabe, Telecom *Italia's chief executive, was fac*ing opposition from his board, *which is trying to fend off a sepa*rate hostile bid by Olivetti, its *smaller Italian rival. The main* sticking point appeared to be a *proposal that would see the Ger*mans owning 60 per cent of the merged entity.

A Deutsche Telekom-Telecom Italia merger would *create a* sprawling giant with a market *capitalisation of almost $180bn*, and would mark the first time that one national *operator has* acquired another.

*Both companies have impor*tant alliances and cross-share*holdings with other operators*, with one of the most important *being the link between* Deutsche Telekom and France Telecom.

France Telecom said yesterday it was told of the deal only at the *weekend. It said:* "Our agreements with Deutsche Telekom are clear and incompatible with a unilateral strategic reversal."

*The deal has received a favour*able reaction in Bonn and Mas*simo D'Alema*, the Italian premier, is under political *obligations* to Germany after Bonn's endorsement of Romano Prodi as the new European Commission president.

However, Mr D'Alema insisted yesterday Italy could not accept the *idea of* a privatised Telecom Italia merging with a company *whose principal shareholder* was the German government.

Deutsche Telekom *is 74* per cent state owned, while the Italian *Treasury* still holds a 3.4 per cent stake in Telecom Italia as well as a golden share.

Although Mr D'Alema said his government was studying "with interest" the proposed merger, he also insisted it was still necessary to know how and when the German government intended to shed its controlling stake.

Goldman Sachs in advising Deutsche Telekom. JP Morgan and Credit Suisse First Boston are advising Telecom Italia.

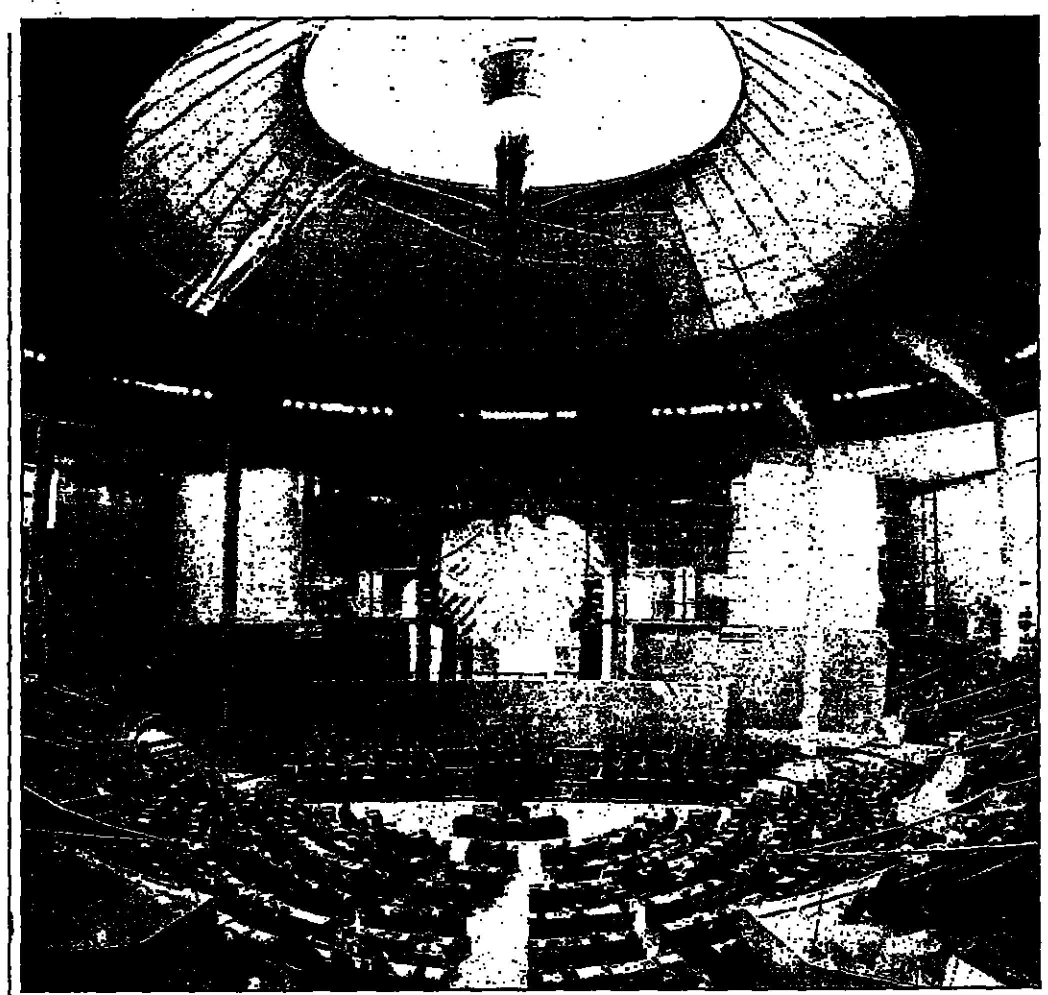
Additional reporting by David Owen in Paris, Michael Smith in Brussels and Ralph Atkins in Bonn

Olivetti sticks with bid, Page 18

World's top 10 telecom companies

Company	Country	Market cap ($bn)
T.Italia/D.Telekom*	Italy/Ger.	178.20
SBC/Ameritech*	US	172.74
NTT	Japan	172.32
MCI WorldCom	US	155.20
Bell Atlantic/GTE*	US	154.40
AT&T	US	136.80
Vodafone/AirTouch*	UK/US	110.07
British Telecom	UK	105.88
France Telecom	France	88.77
Bell South	US	80.32

Source: Reuters * Planned mergers



Parliament sat in the reopened Reichstag building in Berlin for the first time yesterday AP

Reichstag opening heralds new era but remembers past

By Haig Simonian in Berlin

Brilliant sunshine on the Reichstag cast a shadow of the past across Berlin yesterday as politicians crowned the unification of Germany with their first parliamentary session in the restored building.

But the speeches in the opening debate under the high-tech steel and glass dome were curiously downbeat. Even Gerhard Schröder, the German chancellor, talked more about the past than the future.

Outside, a small group of protesting concentration camp survivors, dressed in prison camp clothes, underlined the difficulties Germany faces in trying to look forward by calling on politicians not to forget the Holocaust.

Mr Schröder has been a powerful orator in high-profile events, such as the European Union's Berlin summit or the special congress of his ruling Social Democratic party in recent weeks. Yesterday, however, it was a more reflective chancellor who mused on the Reichstag's prominence in the upheavals which have convulsed Germany since the building was completed in 1894.

Rather than sending a strong political message, his focus was on Berlin and its role as the new capital.

The DM600m (€306m, $328m) Reichstag project, masterminded by Sir Norman Foster, the British architect, marks the latest, and most important, step in the transfer of the German government from Bonn to the new capital.

By September, when the Reichstag will become the permanent home of the Bundestag – the lower house of parliament – most ministries should be fully or partly functional.

The chancellor went out of his way to reassure Germany's partners the democratic values that had characterised Bonn would not be diluted.

"The move to Berlin is a return to German history, to the place of two German dictatorships, which brought great suffering to the people of Germany and of Europe," Mr Schröder told the Bundestag members. "But equating Reichstag with Reich [empire] makes no sense ... The federal model of German politics goes on and is not in the slightest danger." He emphasised that the city's proximity to Poland and other eastern European countries would underpin the EU's efforts to incorporate former communist states from the east.

But he also underlined that last year's election of a Social Democrat-led government and of a new generation of politicians born after the fall of the Nazis marked a turning point. Referring obliquely to German participation in Nato action in Yugoslavia, he noted: "Germany's role in the world has changed."

Yet he stressed benefits at home were still far from evident to many former East Germans.

Belgrade beginning to waver, says Italy

By James Blitz and William Dawkins in Rome

Slobodan Milosevic, the Yugoslav president, is under pressure from the country's business and political establishment to seek a negotiated settlement to the war in Kosovo, Italy's foreign minister claimed yesterday.

Lamberto Dini *told the FT that* some in the Belgrade establishment *now doubt the wisdom of* Yugoslavia continuing to submit *to the Nato bombing campaign.*

The foreign minister did not give specific details of his sources, but Italy has long had close diplomatic ties with Yugoslavia and with the Serb leadership. Italy is the only country taking part in the Nato attacks which still keeps an embassy in Belgrade. Its ambassador was summoned to Rome over the weekend for consultations and briefed Mr Dini yesterday.

"Doubts are beginning to emerge among people in his circle," Mr Dini said. "There is beginning to filter into Milosevic the doubt and the question that he is not likely to succeed and that he should seek a negotiated settlement."

Mr Dini said he understood that doubts were being expressed by traditional supporters and those close to the Serbian leader. The criticisms had come from "members of the various political parties in the government coalition and factory managers".

Mr Dini said the Italian government continued to back the Nato bombardment, most of which has been launched from military and civil airports on its territory. "Italy is not a weak link," he *said. But he warned that the time* available for political settlement *was limited. The war would* develop an unstoppable momentum "within two weeks".

A senior Italian defence official said Nato leaders would discuss the possible use of ground troops at their summit in Washington at the end of the week.

Mr Dini expected Russia to launch an initiative in the next week to convince Mr Milosevic to accept the principle of an international force to protect refugees returning to Kosovo. One option being looked at was a force including a substantial Russian contingent under Nato command.

"We are telling [Milosevic] that Nato will remain united and that he must understand that he cannot win," Mr Dini said. "The question is after how much damage and tragedy to Kosovo and to his own people."

Kosovo crisis, Page 2
Returning the refugees, Page 14

WORLD MARKETS

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	10750.57	(+256.68)
NASDAQ Composite	2450.83	(-83.21)
Europe and Far East		
CAC40	4379.34	(+78.43)
DAX	5220.15	(+64.80)
FTSE 100	6515.3	(+94.7)
FTSE Eurotop 300	1310.86	(+21.74)
Nikkei	16874.21	(-177.37)
US LUNCHTIME RATES		
Federal Funds	4.625%	
3-mth Treas Bills: Yld	4.312%	
Long Bond	95⅞	
Yield	5.589%	
OTHER RATES		
UK: 3-mo Interbank	5⅛%	(same)
UK: 10 yr Gilt	110.39	(110.31)
Euro Euribor	2.921%	(same)
Germany: 10 yr Bund	99.07	(99.08)
Japan: 10 yr JGB	103.054	(102.797)
NORTH SEA OIL (Argus)		
Brent Dated	$16.085	(15.87)

GOLD		
New York: Comex	$284.8	(284.1)
London:	$283.75	(283.95)
DOLLAR		
New York: lunchtime		
£	1.609	
€	0.9402	
SFr	1.5056	
Y	117.865	
London:		
£	1.612	(1.6142)
€	0.9422	(0.9341)
SFr	1.5087	(1.4971)
Y	118.08	(118.105)
Tokyo Close		Y 118.06
EURO (London)		
$	1.0613	(1.0706)
£	0.6584	(0.6632)
Y	125.297	(126.437)
SFr	1.6012	(1.6027)

Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr225	Oman	OR1.75
Belgium	BFr90(€2.23)	Italy	L3600(€1.91)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320(€1.60)
Croatia	Kn18.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr18.00	Latvia	Ls1.85	South Africa	R16
Estonia	EKr34.00	Lithuania	Lit21.00	Spain	Pta325(€1.95)
Finland	FmK12.00(€2.18)	Lebanon	LL[illegible]	Sweden	SKr20.00
France	FFr14.00(€2.13)	Luxembourg	LFr90(€2.23)	Switzerland	SFr3.50
Gibraltar	[illegible]	Morocco	Dh18.00	Syria	S£80.00
Greece	Dr600	Netherlands	Fl 4.50(€2.10)	Tunisia	Din2.000
Hungary	Ft300	Norway	NKr18.00	UAE	Dh13.00

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EUROPE

KOSOVO CRISIS ALLIANCE STUDIES WAYS TO STOP FUEL GETTING THROUGH MONTENEGRIN PORT ■ SERBS DIG IN TO SURVIVE WAR-TORN ECONOMY ■ CONFLICT HITS AGRICULTURE IN REGION

Bid to set record straight on civilian deaths

By Neil Buckley in Brussels

Nato admitted yesterday it may have bombed civilian vehicles and refugees in a convoy last week, in an attack that has become a public relations disaster for the alliance and in which Belgrade says dozens of civilians died.

But the alliance insisted that its pilots believed they were attacking military targets and that they stopped their attacks as soon as they realised civilian vehicles might be mixed with military trucks. It added it could not be certain of the extent of any civilian casualties.

Nato suggested Yugoslav forces might have removed military vehicles from the site before displaying the damage to international journalists last Thursday, and hinted that the Serbs may have attacked some refugees themselves.

The admission that Nato might have hit civilians in two attacks around the town of Djakovica came in a detailed briefing, illustrated with cockpit videos, by a senior US air force commander. It came at the end of the most difficult five days so far for the western alliance in the four-week-old campaign.

Nato's attempts to apologise for the incident and to put it behind it have been hampered by its confused and often contradictory explanations.

Brigadier-General Daniel Leaf confirmed that Nato F-16 bombers were involved in two separate attacks, north-west and south-east of Djakovica, last Wednesday.

In the first F-16 bombers hit a three-vehicle convoy they were convinced were responsible for setting fire to homes and villages in the area, and stationary vehicles in the middle of a complex of buildings. Damage from this attack was shown on Serb television on Wednesday night.

Nato, which has admitted responsibility for this incident, said yesterday it was convinced the targets were military but that "collateral" damage might have occurred.

Brig Gen Leaf added that Nato jets, including one also involved in the attack north-west of town, had later launched several attacks on a "very large convoy" south-east of Djakovica. This was the location to which the Yugoslav authorities escorted international journalists on Thursday.

Brig Gen Leaf said the convoy of 20 vehicles, uniform in shape and colour, travelling at a steady pace with regular distances between them, bore the hallmarks of a military convoy.

An airborne command, control and communications plane had also signalled that it was an army convoy.

Nato jets made several attacks with laser-guided bombs from 12.18 GMT.

Attacks were suspended at 13.00 when questions were raised about the identity of the convoy. Spotter aircraft were called in and the attack called off.

"We may well have caused damage to a civilian vehicle and unintentional harm to civilian lives," Gen Leaf said.

Nato looks at ways to cut fuel supplies

By Neil Buckley in Brussels and Robert Graham in Paris

Nato military planners are studying ways of choking off remaining fuel supplies to Yugoslav forces, amid concerns that continuing oil deliveries by sea could undermine the effectiveness of the alliance's bombing campaign.

The alliance says its air attacks have already destroyed 70 per cent of Yugoslavia's fuel stocks and disabled both its refineries. Officials say there is evidence that Serb troop movements have been curtailed to preserve precious fuel.

But there has been mounting irritation over the past week that although fuel deliveries along the Danube river have been cut off, Yugoslavia is still receiving refined fuel through the port of Bar in Montenegro.

Nato ambassadors instructed the military command late last week to look at ways of cutting off supplies. These might stretch from stopping and searching ships, turning away those carrying fuel, to stopping all ships from landing or even attacking port facilities.

"Our military authorities are looking at what the options are to screw the top down further," said Jamie Shea, Nato spokesman. "We are going to do whatever we can within the existing scope of the operation to make the oil run out quickly."

However, while there is understood to be broad agreement among Nato ambassadors on the need to act, there are differences over what should be done. France is understood to be keen for Nato to find a firm legal basis for any action involving searching or blockading ships.

"France has adopted a legalistic position," said one Nato diplomat.

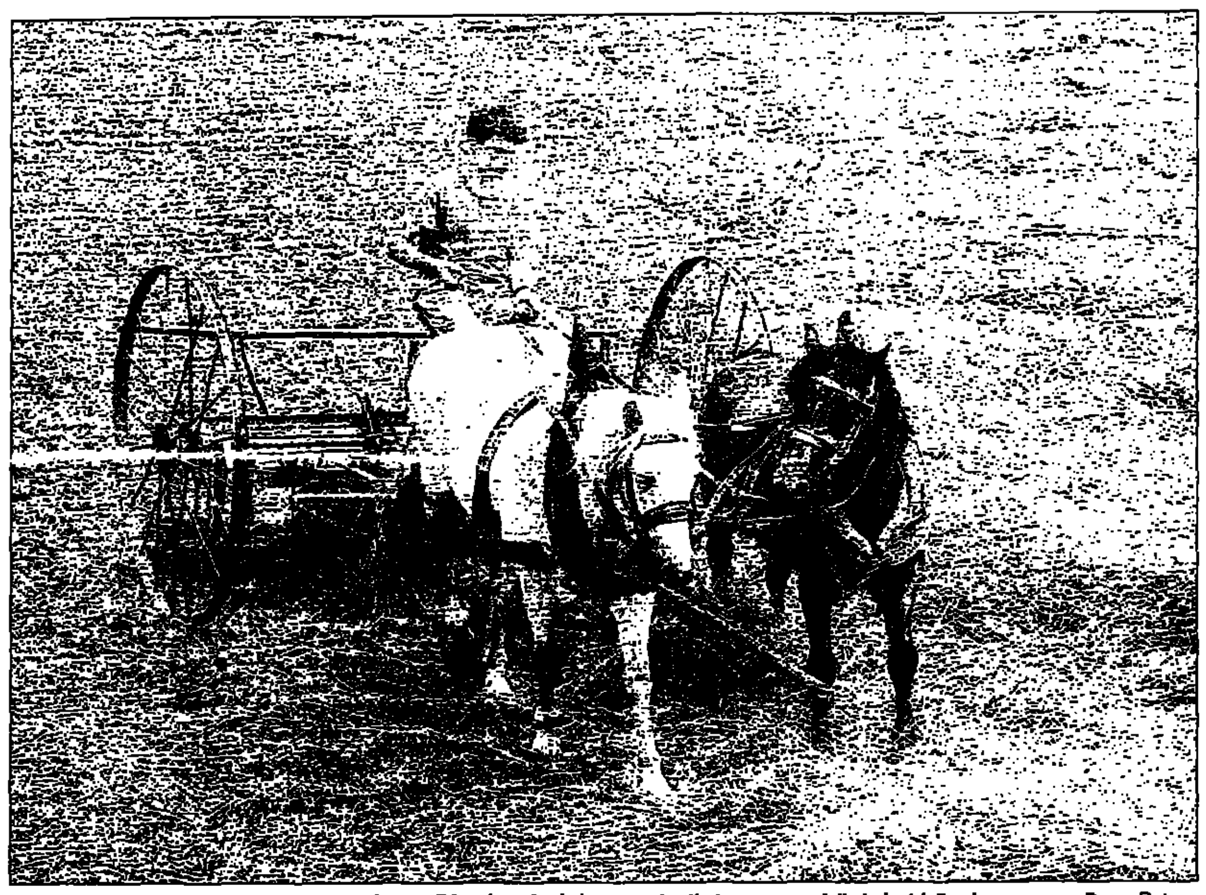
France came out yesterday against a full oil embargo on Yugoslavia but said it favoured a restrictive policy that would control and monitor the flow. At the same time it proposed the EU should act in consultation with Yugoslavia's neighbours – Bulgaria, Hungary and Romania.

Strategy towards vessels carrying fuel supplies to ports in Montenegro appeared to be equally sensitive in Paris. President Jacques Chirac is against Nato bombing of Montenegro for fear it could destabilise the country's efforts to distance itself from the Milosevic regime in Belgrade.

France said it was important to avoid measures that could enlarge the conflict. It added that the legal basis of an oil embargo was dubious without backing from a United Nations resolution.

Serbs draw on all their experience of hard times

Yugoslavia may be able to survive long on a war footing, writes **Guy Dinmore in Belgrade**



Lack of diesel has not stopped farmers using traditional methods in a country that was never fully industrialised — Panos Pictures

In the flatlands of central Serbia many farmers have discarded their tractors for lack of diesel and have hitched up horses and cattle to their ploughs. Where there is no livestock, peasants are tilling their fields by hand.

Nato's bombing is taking its toll on Yugoslavia's economy, which was already showing signs of slipping back into recession before the offensive began.

Yet sugar, milk and Italian cooking oil fill the shelves in Belgrade's state-run C-Market stores. To the surprise of many, basic foodstuffs are now in better supply than before the air strikes began nearly four weeks ago. And some economists believe the country can probably survive longer on a war footing than many people think.

Yugoslavia was never fully industrialised and many urban Serbs still have one foot in the countryside with a small summer house and plot of land. Nato is steadily taking out bridges across the Danube, cutting off the richest farmland in the northern province of Vojvodina from the rest of Serbia, but the big cities can still rely on their immediate hinterland for provisions.

"We've always had surpluses of food. No one is afraid of being hungry," said one economist, who asked not to be named, noting that even economic statistics are an official secret under the state of war declared by the federal government.

Even before the bombs fell, economists estimated agricultural output would fall by up to 20 per cent because of a shortage of fertiliser, caused in turn by a lack of hard currency to pay for imported gas to make it. The bombing on Sunday of a petrochemicals complex in Pancevo will make matters worse, but farmers – as they did during sanctions imposed during the 1992-95 Bosnian war – are expected to revert to manure and sow more land.

Life under sanctions, when Yugoslavia was under an almost total trade embargo, has given the government of President Slobodan Milosevic plenty of crisis experience. In 1993 Belgrade tried to print its way out of trouble, triggering hyperinflation that ran into billions of per cent. Now, bankers say, the central bank is committed to keeping the dinar and prices stable, even at the risk of deflation. The dinar has slipped in value on the black market over the past month, but only by about 12 per cent.

Most state workers this month will only receive about half their salaries. Payments of pensions are several months behind. "But as long as the bombs keep falling, no one will protest," one banker said. "By keeping silent we support Milosevic, but what can we do?"

Under sanctions many workers were paid largely in kind. Doctors at state hospitals turned autopsy tables into butchers' shops, slicing up sides of pork for their staff. With thousands now out of work after the bombing of the Zastava car plant and other factories, the experience gained during that period is likely to be widely drawn on.

The government of former communists is using the crisis to centralise the economy further. Directors of key industries hold cabinet positions. The long discussed amalgamation of 22 banks has finally gone ahead under the command of Borka Vucic, the head of Beogradska Bank who for years managed the regime's hard currency reserves in offshore accounts.

Vojislav Seselj, head of the ultra-nationalist Serbian Radical party and a deputy prime minister, has suggested the government should collect war damages by "seizing the property of hostile states on our territory". This would include the assets of Telecom Italia, which along with OTE of Greece, paid about $1bn in 1997 for a 49 per cent stake in Serbia's state-owned telecommunications company.

Economists warn, however, that if the central government goes too far with its desire to control then it risks choking the "grey" economy which accounts for more than a third of gross domestic product. Imported cigarettes are already hard to come by while oranges and bananas are absent from Belgrade's open markets. Many small private enterprises have already shut down.

Most damaging in the short term is the shortage of fuel. Hungary – Nato's newest member – has cut off supplies of oil to Yugoslavia by its state-run energy company MOL. Russian gas that transits Hungary has also been shut down.

Nato peacekeepers are endeavouring to stop the flow of gasoline from the Serb-controlled-half of Bosnia. Serbia's only outlet to the sea – Montenegro's short strip of Adriatic coast – is also easy to blockade.

Traffic is thinner in Belgrade but it still has its rush-hour gridlock. Smuggling channels that kept Serbia moving during the sanctions – despite the presence of international observers – are being re-opened.

"Air raids alone cannot eradicate economic activity," one economist said.

But while Mr Milosevic can call upon his nation to make even greater sacrifices during a time of war, it is less certain his regime will be able to prolong its grip on power once the conflict is over. Without some kind of "Marshall Plan" for reconstruction by the western powers – unlikely to be offered while the current government remains in office – Serbs fear their country will remain starved of foreign investment, facing years of economic hardship.

Conflict disrupts food supplies

By Paul Solman in London

The Kosovo crisis has devastated agriculture in the region and is having far-reaching consequences for food supplies both locally and across Europe.

As well as the immediate problems of feeding refugees, fighting in Kosovo has restricted crop planting since last autumn. According to the United Nations Food and Agriculture Organisation (FAO), Kosovo's 1998-99 wheat crop, which provides about 300,000 tonnes, has been missed.

Nato bombing has also disrupted the trade in frozen raspberries. Serbia is one of Europe's most important suppliers of the fruit, which is frozen and exported to food manufacturers for making jam, yoghurt and pies.

About 100,000 hectares of Kosovo's maize, 25,000 hectares of vegetables and 30,000 hectares of other crops normally planted in March and April have been lost as a result of fighting.

"A large amount of farming equipment has been looted or destroyed," the FAO said. "Huge losses of livestock due to violence, disease and abandonment are also reported."

Meanwhile, fruit traders say European frozen raspberry prices are set to jump amid signs that shipments from Serbia will stop. Although the fruit is still available, Nato bombings have disrupted transport. One trader said the cost of shipping from Serbia to the UK had risen from DM7,200 (€7,700, $4,000) to DM8,500.

Prices of Serbian frozen raspberries have risen slightly to about DM3.10 a kilogram, but traders say they could jump sharply if supplies are held up.

The Federal Republic of Yugoslavia produced 40,000 tonnes of raspberries last year, the third biggest crop in Europe after the Russian Federation and Poland.

NEWS DIGEST

NATO REQUESTS SURVEILLANCE HELP

France reinforces its aerial intelligence role

France is reinforcing its role in providing aerial intelligence on Kosovo as a result of a request from Nato commanders. It will deploy two new types of drone in addition to a helicopter-borne system of radar surveillance within the the next week, General Jean-Pierre Kelche, head of the French joint chiefs of staff, said yesterday.

The equipment, to be operated by some of the 2,500 French troops stationed in Macedonia, will boost information on the location of concealed armour and artillery as well as movements by Serb regular and para-military forces inside Kosovo.

Nato's request underlines its need to use all available means to pinpoint Serb military targets. Both drones are launched from mobile platforms and can overfly Kosovo, while the Horizon helicopter, which will operate from the Macedonian border, has a radar capable of probing 150km inside Kosovo. The French Helios satellite system is providing high altitude battlefield information.

France is raising the number of aircraft in the Nato operation to 73, the largest contingent after the US. **Robert Graham, Paris**

NO MORE RUSSIAN WARSHIPS

Yeltsin in sign of compromise

President Boris Yeltsin said yesterday Russia would not allow the west to control Yugoslavia but in a sign of a compromise with Nato he said no more Russian warships would sail to the Adriatic Sea.

"Bill Clinton hopes to win, he hopes [Yugoslav President Slobodan Milosevic] will capitulate, give up the whole of Yugoslavia, make it America's protectorate," said Mr Yeltsin. "We will not allow this. This is a strategic place, the Balkans." In a more conciliatory vein, the president said Russia was ready to carry on acting as a go-between and would not send further warships to the Balkans region.

Russia, which sternly opposes Nato military action in Yugoslavia, has sent a small reconnaissance ship, the Liman, to the Adriatic and has kept several warships on standby. **Charles Clover and Reuters, Moscow**

GERMAN RESPONSE

Greens back away from Nato

Germany's Greens, the junior member of the "Red-Green" coalition of Social Democrats and environmentalists in Bonn, yesterday formally distanced themselves further from Nato policy in Yugolsavia, increasing the strains on government policy in the region.

Antje Radcke, the Greens' co-leader, said after a meeting of leading members that the party would no longer support Nato strikes on civilian targets in Yugoslavia or bombing raids on Montenegro. She warned that opposition among Greens to the Nato campaign was hardening as the bombing continued without producing any obvious results. "It's increasingly dubious what Nato's air strikes are achieving," she said. **Haig Simonian, Berlin**

MACEDONIAN FACILITIES

Plea to expand camps

Humanitarian agencies yesterday urged the Macedonian government to allow the expansion of existing refugee camps and the construction of new camps for expected arrivals in the coming weeks. Existing refugee camps are full with about 45,000 ethnic Albanian refugees from Kosovo and there is no accommodation for new arrivals, according to aid workers.

The Macedonian government initially agreed to allow expansion of the existing camps but when the attempt was made to extend the Stankovac 1 camp, the authorities backed down after local farmers turned out in force to protest. **Matej Vipotnik, Skopje**

IMF likely to sign $450m deal with Romania

By Arkady Ostrovsky and Stefan Wagstyl in London

Romania is set to seal a $450m deal with the International Monetary Fund in the next two days that would help ease months of investor concern about the country's economic stability, according to Christian Popa, vice-governor of the National Bank of Romania.

The deal, which appears to have been settled earlier than expected because of concern over the economic impact of the Kosovo crisis, will help Romania avoid a much-feared default on its international bonds.

Mr Popa said $315m of the IMF money would be disbursed this year and pave the way for a $250m World Bank loan, agreed in principle.

The IMF has previously said its lending to Romania was conditional on the country's ability to roll over its international bonds, which would in effect have amounted to a default.

But Mr Popa said Romania had managed to reach a deal with the IMF under which the country would be requested to secure fresh financing from commercial creditors. He said a consortium of western banks active in the region had agreed to lend Romania $150m-$200m for two years.

Meanwhile, Bulgaria, which is in much better economic shape than Romania but is more exposed to the Kosovo crisis, is to ask the international community for $300m in extra balance of payments support.

Muravey Radev, finance minister, is to put the request at a meeting with donors in Brussels today.

He said the money was required to help the country overcome disruption to trade, investment and tourism.

● Poland's industrial output, which fell in the first two months of this year, grew by 22 per cent in March compared with the previous month, according to the state statistical office, writes **Chris Bobinski in Warsaw.** But economic growth is still expected to slow this year compared with 1998.

● Hungary yesterday announced slightly disappointing industrial output figures, writes **Robert Wright in Budapest.**

Gross industrial output grew by 5.3 per cent year-on-year during February, a fall from the 7.2 per cent growth in January.

Industrial production grew by 11.8 per cent for the whole of 1998, according to preliminary figures also released yesterday, against GDP growth for the whole economy of 5.1 per cent.

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Swiss set to defend bank secrecy law

By William Hall in Zurich

Switzerland, which controls about a third of the world's private offshore banking market, is today expected to make a robust defence against pressure from the European Union to relax its bank secrecy law.

Pascal Couchepin, Switzerland's economy minister, will reaffirm his country's commitment to defend its bank secrecy law when he arrives in London today at the head of a Swiss banking delegation. Under this law, bankers can be jailed for disclosing information about their customers.

Mr Couchepin is expected to take a strong stand against attempts by the EU and the Organisation for Economic Co-operation and Development (OECD) to force Switzerland to relax the law, which many observers believe is one of the main reasons for the country's success as a private banking centre.

Last year Mr Couchepin led the Swiss delegation that refused to join an OECD drive to stamp out tax havens and harmful tax competition.

"We have no feeling of guilt about bank secrecy. It protects individual freedoms. There is a tradition of discretion in this country and bank secrecy is part of the culture of individual treatment of bank customers," said Mr Couchepin.

"We absolutely agree that bank secrecy must not be used to protect criminal elements and money laundering. We have changed our rules to allow authorities to pursue these activities. Collaboration is working very well with the US and other authorities," he said.

Mr Couchepin's visit to London marks the first attempt by Switzerland's traditionally secretive bankers to market the country's advantages as an offshore financial centre. It will be followed by visits to Madrid, Frankfurt and New York, and reflects the growing competition for business, especially in the area of private banking, where Switzerland traditionally excels.

The Swiss delegation, which includes Bruno Gehrig, Swiss National Bank director, and Georg Krayer, president of the Swiss Bankers Association, will highlight Switzerland's advantages such as its long tradition of political stability, strong currency, excellent technical infrastructure, and high quality banking services.

However, Swiss bankers are likely to be pressed for reassurance that Switzerland's bank secrecy laws have not been watered down to appease the growing pressure from the tax authorities of countries such as the US and Germany, which believe the line between criminal tax "evasion" and legal tax "avoidance" is blurred.

Switzerland, along with Liechtenstein, Andorra, Monaco and San Marino, is also under growing pressure from the EU to co-operate in stemming any capital flight resulting from the EU's controversial plan to harmonise tax legislation.

Under the EU proposal, which Switzerland is being encouraged to adopt, banks will levy a standard 20 per cent withholding tax on interest payments, or report interest payments made to EU residents to the respective tax authorities.

Switzerland already has a 35 per cent withholding tax, but it is not levied on non-residents. The EU tax would apply to all private EU residents.

"We are not convinced that it is economically rational to introduce this kind of tax on a European level when the rest of the world does not follow," said Mr Couchepin.

He stressed that Switzerland shares many of the same reservations as the UK, which is concerned the new tax will cause the international bond market to flee London.

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Ecevit expected to form coalition with nationalists

By Leyla Boulton in Ankara

Bülent Ecevit, Turkey's caretaker prime minister, was yesterday expected to form a government with the Nationalist Action party (MHP), the far-right group that secured the second largest share of the vote in Sunday's general elections.

Turkey's political landscape was redrawn after nationalism replaced Islam as the main form of protest against mainstream party leaders, who all lost votes with the exception of Mr Ecevit. Virtue, the Islamist party, was demoted from largest to third largest party in parliament.

Financial markets and foreign governments, meanwhile, tried to work out whether a combination of Mr Ecevit's Democratic Left and the MHP would hamper economic reform and further damage Turkey's strained relationship with the European Union. The Turkish stock market opened 5.76 per cent lower yesterday.

One European diplomat noted that Mr Ecevit was already enough of a nationalist for the MHP's arrival to "not make much difference" to already poor relations with the EU.

Bahadir Kaleagasi, Brussels representative of Tusiad, the Turkish business confederation, said the EU should take a more strategic view after having humiliated Turkey by ranking its membership application beneath that of newer eastern European applicants, and mishandling Turkish feelings about Abdullah Ocalan, the PKK guerrilla leader.

Advocates of human rights and an improved political dialogue with moderate Kurds to end the guerrilla war in Turkey's mainly Kurdish south-east focused criticism on the likely new government.

"The number two party is a fascist party and the number one party has nothing in common with the left except its name," said Hüsnü Onduz, general secretary of the Human Rights Association. "An unlucky period is beginning for Turkey as both parties have tough but unrealistic solutions for the Kurdish issue," said Nazif Kaleli, deputy chairman of the Mass Democratic party, a moderate Kurdish party.

Mr Ecevit saw his share of the vote jump to 21 per cent from 14 per cent, gaining support as a result of the capture and return to Turkey of Mr Ocalan, who is awaiting trial on treason charges. Pressure to carry out a death sentence if he is convicted is likely to increase as the MHP sees its main duty to "fight against terrorism... the biggest threat to our citizens' security, national unity, democracy and economic progress".

But the party, born in the 1960s as an anti-Communist, pan-Turkish group, says it is no longer fair to call it "extremist" or "fascist" because it has purged itself of extreme nationalists involved in political violence against leftists and Kurds. "We are fighting for our integration with the world together with our traditions and our culture, like the Japanese," said Sait Gö, an MHP deputy for Konya, Turkey's most religious city.

Under Devlet Bahçeli, its leader for the past two years, the party has recruited what one new party member's wife called "nicer people", such as town planners and environmentalists. With all parties agreeing on the need to cut Turkey's double-digit inflation, the MHP has toned down its rhetoric to concentrate on a reformist economic programme. On privatisation, suspended because of corruption allegations against the previous coalition, the MHP says it will first revamp regulation to make sell-offs more transparent. It promises to sell most state-owned enterprises, including two banks.

However, Dogu Ergil, an independent liberal, said the MHP's reformist pledges would be limited in by the need to distribute favours to its supporters.

Some analysts argued that the MHP's success had less to do with foreign policy or economic reform than with a protest vote against squabbling and ineffectual politicians. "The electorate above all wants to make ends meet and to see law and order, and they don't really care how this is achieved," said Metin Heper, a political scientist at Bilkent University in Ankara.

Urgency behind drive for jobs

ECB watch

By Tony Barber in Frankfurt

Policymakers at the European Central Bank never tire of advocating structural economic reforms as the most effective way to create jobs and revive the euro-zone economy.

What is less often discussed is why the ECB has a direct self-interest as an institution in urging governments to introduce such reforms.

An insight into this deeper layer of ECB thinking was provided last week by one of the bank's six executive board members, Tommaso Padoa-Schioppa of Italy.

Speaking one week after the ECB cut its main interest rate by half a percentage point to 2.5 per cent, he noted widespread agreement among economists that "perverse incentives, direct and indirect taxation of labour, unsustainable pension schemes, overly tight employment rules and rigidities throughout the economy are the main obstacles to the creation of new jobs".

However, he added that it was not easy to reduce unemployment quickly by means of structural reforms. Even the Netherlands and the UK, where such reforms have gone further than in, say, Germany and Italy, policies started in the 1980s did not translate into sustained lower unemployment until the 1990s.

Thus, even if Germany, Italy and other euro-zone governments take action this year to free up labour and product markets and introduce more attractive tax incentives to business, euro-zone unemployment may not fall far below its current 10.5 per cent level for some years.

Here lies the threat to the ECB. Most European governments and societies accepted the need for long-term price stability, and an independent central bank to guarantee it, only after witnessing the corrosive effects of inflation in the 1970s and 1980s. That is why they established the ECB as possibly the world's most independent central bank, whose primary task is to suppress inflation.

But what would happen if euro-zone unemployment were to remain stubbornly high at, say, 10 per cent for the next five years? Would the anti-inflationary consensus among governments and societies survive, or would it give way, as among partly reformed addicts, to an uncontrollable yearning for an inflationary fix? And how might that affect the ECB's role?

One possible answer, though Mr Padoa-Schioppa skirted it, is that the ECB's identity as an independent, inflation-busting institution would be seriously undermined. Its prestige would be diminished, its future purpose uncertain.

Hence the urgency behind the repeated calls by ECB board members since April 8 for rapid structural reforms. For the ECB, it is close to a matter of life or death.

Economic indicators for euro-11 countries

	Feb 1999	Jan 99	Dec 1998	Nov 98	Oct 98	Sep 98	1998	1997
Inflation (annual % change)	0.8	0.8	0.8	0.8	0.9	1.0	1.1	1.6†
Unemployment (%)	10.5	10.6	10.7	10.8	10.8	10.9	10.9	11.6
Trade (Ecu bn)								
Exports	n.a.	n.a.	64.5	66.1	68.4	65.6	790.8	762.4
Imports	n.a.	n.a.	57.4	58.9	61.8	61.4	707.7	674.0
Trade balance	n.a.	n.a.	7.2	7.2	6.7	4.1	83.2	88.4
Current account (Ecu bn)	03 1998		02 98	01 98		04 97		03 97
Current account balance	21.8		25.0	12.4		28.6		26.0
As % of GDP	1.5		1.7	0.9		2.0		1.9
Industrial production (%) (3 mo over previous 3 mo)	Nov-Jan/ Aug-Oct		Oct-Dec/ Jul-Sep	Sep-Nov/ Jun-Aug		Aug-Oct/ May-Jul	1998	1997
	-0.4		-0.3	-0.2		-0.1	4.2	4.1
GDP growth (%)	04 1998		03 1998	02 98		01 98	1998	1997
Over same quarter last year	2.4		2.9	3.0		3.8	3.0	2.5
Money supply	Feb 1999	Jan 1999	Dec 1998	Nov 1998	Oct 98	Sep 98		
M3 Annual growth rate (%)	5.2	5.6	4.5	4.6	4.8	4.4		

* provisional — estimated † estimated due to Ireland, for which quarterly index numbers for 1995 and 1996 were used to estimate the monthly ones
Source: Eurostat †† annual % change

Euro forecast to strengthen in long term

By Peter Norman in Brussels

Wim Duisenberg, president of the European Central Bank, yesterday shrugged off alarm about the euro's decline on foreign exchange markets since its January launch and predicted that "in the longer term" the single currency would strengthen rather than weaken.

Answering questions from the European Parliament's monetary affairs sub-committee, Mr Duisenberg stressed that the ECB had no exchange rate target, no exchange rate regime "and not even a figure in the back of the mind that would cause us to be concerned" about the euro.

The ECB would have a problem only if the euro exchange rate moved to the extent of having "a significant upward impact on the rate of inflation," he said.

However, expectations of consumer price inflation in the 11-nation euro-zone this year had declined from 1.5 per cent at the beginning of 1999 to around 1.1 per cent.

Mr Duisenberg's lack of concern about the euro's slide from an early January peak of around $1.20 to $1.061 when the market in London closed yesterday showed how the creation of a large-scale single currency area has changed the rules of monetary management in the European Union.

He reassured worried MEPs that the impact of exchange rate changes on the large, euro-area single market was far less than on individual EU countries previously.

Some of the euro's recent weakness and volatility reflected the crisis in Kosovo, while its decline against the British pound reflected higher UK interest rates.

Mr Duisenberg also pointed out that currencies making up the euro had only started to strengthen late last year and it was "a laugh" to speak of it hitting "historic" lows just weeks after its launch.

Even after recent declines, the euro was valued at the level of the "synthetic euro" between April and July last year.

Looking ahead, Mr Duisenberg said three factors should help the euro to strengthen.

These were the large US balance of payments deficit, a gradual diversification of public and private investments to the euro, and the prospect that US growth would slow at some point.

Mr Duisenberg said he hoped the US economy would experience a "soft landing" and the euro's rise would "not be too fast".

The ECB's exchange rate policy was neither "benign nor malign neglect" but "for the time being there is neglect," he said.

Italy attempts to salvage reforms

By James Blitz in Rome

Italy's leading politicians were yesterday trying to salvage the country's drive for political and institutional reform after a referendum on Sunday failed to end proportional representation.

In a setback for attempts to give future Italian governments more stability, the referendum failed by a narrow margin to achieve the quorum required for the poll to be valid.

More than 20m Italians took part in Sunday's referendum, some 49.6 per cent of the total number qualified to vote. However, more than 50 per cent was required for the result to be valid.

Of those that voted, around 90 per cent said they were in favour of the remaining element of proportional representation being scrapped and Italy moving towards a UK-style first-past-the-post system.

The referendum was seen as a unique opportunity for the public to push through the reform process by popular vote, shifting Italy away from its legacy of 50 governments in more than half a century. Romano Prodi, the president-delegate of the European Commission, led a chorus of reformers who lamented that Italy had failed to make a landmark change to its electoral system by around 150,000 votes.

"A page has not been turned but there were millions and millions and millions that wanted change," he said in his home town of Bologna. "That isn't just nothing."

Massimo D'Alema, Italy's prime minister, committed his government to carry forward reforms that would create a bipolar system. But Massimo Cacciari, the mayor of Venice, was typical of reform-minded politicians in describing the referendum's outcome as a "hard and heavy heart-attack".

Under Italy's electoral law, some 75 per cent of seats to the chamber of deputies are elected on a first-past-the-post basis. The remaining 25 per cent are chosen by proportional representation.

Political reformers have long argued that the retention of proportional representation allows many small parties to gain seats in parliament where their machinations frequently bring down governments. But these small parties – such as the Communists, Greens and moderate Christian Democrats – have long been important pillars of governing coalitions, and any government that seeks to reform the system has faced difficulties.

EU 'needs 8 months' to end banana crisis

By Frances Williams in Geneva

The European Union said yesterday it would consult trading partners on reforming its controversial banana import regime but it might take until next January to find a solution.

The move came as the World Trade Organisation formally authorised the US to impose $191.4m in trade sanctions on European Union goods as retaliation for the EU's failure to make its banana regime consistent with global trade rules.

WTO members were obliged to give the US approval for punitive tariffs following a ruling by a WTO panel that the EU's amended banana import arrangements introduced on January 1 did not comply with earlier WTO judgments.

Rita Hayes, US ambassador to the WTO, said after the meeting of the WTO's dispute settlement body that retaliation was a last resort intended to push the EU to negotiate a WTO-consistent agreement.

The US was prepared to lift the sanctions – which apply to nine products including lithographs, batteries and bath preparations from the UK, handbags from France and Italy, and coffee and tea-makers from Germany – as soon as a solution was found.

Rod Abbott, EU ambassador to the WTO, said yesterday that the EU accepted the thrust of the panel report and intended to consult trading partners on an acceptable banana regime.

However, he warned that it would be very difficult to find a solution that satisfied all the competing interests – the US and its five Latin American co-complainants, other Latin American banana producers, and the African, Caribbean and Pacific countries that are entitled to special preferences under the EU's Lomé Convention.

There could also be procedural delays due to this summer's elections for the European Parliament and the formation of a new European Commission, Mr Abbott said, adding that the *hope would be to have a system in place by January.*

Brussels has not formally decided whether *to appeal* against the panel report but, according to EU sources, 12 of the 15 member states are opposed, with only France, Spain and Portugal in favour. Mr Abbott said any appeal would be confined to technical legal questions and would not challenge the panel's central finding.

The EU is, however, planning to contest the US imposition of sanctions from March 3, when provisional measures were imposed requiring importers to post bonds to cover the 100 per cent duties. The EU has already brought a WTO complaint against the March 3 measures, which could go to a panel if consultations this week do not resolve the dispute.

Yesterday's WTO authorisation for sanctions was the second in the 51-year history of the WTO and its predecessor, Gatt. In 1952 the Netherlands was allowed to impose quotas on imports of US wheat flour.

Germans catching up on UK biotechnology groups

By David Pilling, Pharmaceuticals Correspondent

Germany is threatening to overtake the UK as the European country with the highest number of biotechnology companies, as its push to kick-start the sector with government funds begins to pay dividends.

According to a report by Ernst & Young released today to coincide with the annual European Life Sciences conference in Amsterdam, Germany has 225 biotech companies, against 270 in the UK. Five years ago, Germany had almost no life science start-ups at all.

France, traditionally Europe's second centre for biotechnology, is a distant third with 150 companies. Behind it come Israel, Sweden, Switzerland and the Netherlands.

The rise of the sector in Germany has so concerned the UK government that last week it set up a team of academics and entrepreneurs to find ways of protecting Britain's narrowing lead.

Last year, the Department of Trade and Industry sent an expert mission to Germany. Its report concluded that Bonn's aim of becoming Europe's biotechnology leader had matured from "an act of political bravado" to being "a good deal more plausible".

Number of German biotech companies

1993	73
1994	75
1995	80
1996	101
1997	175
1998	222

Source: Ernst & Young, BioCentury

The catalyst in Germany has come from the Bioregio initiative, which allocated federal funding, and encouraged states to provide matching funds and soft loans to start-up companies.

Venture capitalists are often able to triple or even quadruple their initial investment by applying for official funds.

In the UK, the government has been reluctant to help companies with direct grants, though it is currently examining a series of measures, such as tax breaks, aimed at encouraging the sector.

Backing from Bonn appears to have changed public attitudes in Germany. When *Morphosys* was founded in the mid-1990s, the Munich-based company picked a name without the word "gene" in it, so as not to prompt controversy.

Now, opinion polls show the public strongly supports biotech companies in the field of human health, seeing them as generators of well paid jobs and potential medical breakthroughs.

As a result, several prominent scientists from the Max Planck Institute and other universities have emulated their US colleagues by spinning out their research into companies.

Some, such as Patrick Bäuerle, a *leading academic/* entrepreneur who recently joined Micromet, based *in Munich, have returned* from the west coast of America to become involved in home-grown companies.

"The industry *is reaching* a critical mass in Germany," says Robert Zegelaar, a partner at Atlas Venture, a strong backer of biotechnology in Europe.

But in some ways, Germany remains a distant second *to* the UK. Last month, Morphosys became the first biotech company to go public after a *successful* Neuer Markt listing. The UK has about 40 public biotech companies.

Moreover, two British companies, Chiroscience and Vanguard, *have received* regulatory approval for their products, a local anaesthetic and a migraine *pill respectively.*

The most advanced German company *is years* away from that important landmark.

UK investor confidence has been so shaken by a series of *scandals* and mis*haps that* even news of the first product approvals has failed to wake things up. Several *companies* saw their share price drop by three-quarters last year.

Latin American deal for Airbus

By Michael Skapinker, Aerospace Correspondent

Airbus Industrie, the European consortium, announced a further success in Latin America yesterday with the sale of 12 long-haul aircraft to Aerolineas Argentinas.

The Argentine carrier ordered 12 A340 aircraft, making it the first Latin American airline to buy four-engined long-haul aircraft from Airbus. Airbus would not disclose the value *of the sale* but the list price of the 12 aircraft is about $1.5bn.

The order follows the decision last year by LanChile, the Chilean flag carrier, Tam of Brazil and Taca, a group of five Central American airlines, to buy up to 179 narrow-bodied short-haul Airbus aircraft. Latin America had long been seen as the preserve of Boeing, Airbus's US rival.

Aerolineas Argentinas is buying six of Airbus's newly launched 300-seat *A340-600* aircraft to replace its Boeing *747s*. The remaining aircraft will be smaller A340-200s and A340-300s, which will start entering service this summer.

The airline said it planned to use the aircraft on services from Buenos Aires to Auckland, Sydney, Paris and Rome. David Cush, Aerolineas Argentina's chief operating officer, said: "The three different versions of the A340 provide us with the flexibility we need to meet varying demand on our ultra-long-haul routes. The A340-600 will provide us with the high capacity that we need to replace our Boeing 747 fleet."

The A340-600 competes with smaller versions of the 747 and with the twin-engined 777, Boeing's newest aircraft. Although the 777 has been well-received by airlines, Airbus has argued that many carriers and passengers prefer four-engined aircraft for long journeys.

JOINING THE WTO WITH ENTRY FOR CHINA INCREASINGLY LIKELY THIS YEAR, TAIPEI'S HOPES OF ACCESSION TO THE WORLD TRADE BODY ARE RISING

Taiwan waits patiently in line behind China

By Mure Dickie in Taipei

The biggest obstacle to Taiwan's entry to the World Trade Organisation is a minor dispute over tariffs on certain cuts of Canadian beef and pork – and the objections of a political rival that is not even a member of the global trade club.

China's insistence that it be allowed to join the WTO ahead of what it considers a wayward province means the recent stalling of Sino-US efforts to strike a deal on Beijing's entry has cast new doubt on Taiwan's decade-long accession effort.

Hopes remain that, despite the disappointments of Chinese Premier Zhu Rongji's visit to the US last week, China will secure a place in the WTO this year. But even if those hopes fade further, Beijing's widespread support among WTO members gives Taiwan little choice but to continue cutting tariffs, quietly canvassing for international support and hoping for the best.

"The politics of entry are beyond the control of the Taiwanese government," says Daniel Liu, head of the international division at Taiwan's Chung-Hua Institution for Economic Research. "We have to wait for China."

Taiwan has already done much of the hard work of trade liberalisation. All but two of the 26 WTO members who requested bilateral negotiations on the terms of its entry have reached agreement. Canada is holding out over pre-accession favours Taiwan granted to the US for certain meat imports, but the sums involved are relatively small and a resolution appears likely.

The other hold-out is Hong Kong, which initialled a bilateral agreement with Taipei in 1997 and had resolved all queries on it by late 1998. Hong Kong trade officials decline to explain why they have no plans to sign the agreement soon – but they dismiss suggestions Beijing is involved, saying the former British colony has the final say in its dealings with WTO applicants.

Even without Hong Kong as a block, Taipei is poorly placed to overcome Chinese opposition to its WTO entry, which must be approved by a consensus of members or by a two-thirds majority. Pressure from China has made Taiwan, Beijing's bitter rival since defeated Nationalist forces fled there in 1949, a virtual diplomatic pariah.

Exclusion from international organisations or membership under names that deny any national identity – Taipei is applying to the WTO as a customs territory – has not stopped Taiwan becoming the world's 14th largest trading power. It has, however, left the island of 21m people with much less clout than its powerful economy would otherwise allow it to command.

The idea that Beijing, as the legitimate government of all China, must have precedence was raised at the WTO's predecessor body, the General Agreement on Tariffs and Trade, in 1992. While some members voiced opposition, that position has since been widely accepted as an "understanding" in the cloudy world of trade diplomacy.

Taiwanese leaders from President Lee Teng-hui downwards try to counter that understanding by calling for all applications to be considered on their own merits. It is a position echoed by Washington, but there appears little chance the US will further test its rocky relations with Beijing by championing Taiwan's trade cause.

A more conciliatory approach may be reflected in recent suggestions by Taiwan that its WTO campaign could include a relaxation of the tight restrictions on trade with the mainland – a policy Beijing would welcome.

Issue of telephone licences will boost liberalisation

Taiwan will issue new operating licences for fixed line and wireless telephone systems by the end of this year as part of market liberalisation measures agreed by WTO members. Opening the island's telecom market is viewed as a prelude to membership.

The Directorate General of Telecommunications has placed no limit on the number of licences it will initially issue but will not issue any more until 2004 to allow the first group of licence holders time to get established.

Analysts expect the land-based telecommunications segment, dominated by the government-owned Chung Hwa Telecom, to generate more interest than the low-tier wireless telephone sector.

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OLYMPICS JOHNSON & JOHNSON ACTS

US group shies from Games deal

By Patrick Harverson in London

The Olympic corruption scandal has claimed its first sponsorship victim after Johnson & Johnson confirmed it had abandoned plans for a $30m sponsorship deal with the 2002 Winter Olympics in Salt Lake City.

The New Jersey-based healthcare products group said it was not proceeding with the sponsorship partly because of allegations that Salt Lake City officials bribed members of the International Olympic Committee during the city's successful bid to host the games.

John McKeegan, a Johnson & Johnson spokesman, said while an internal disagreement about how to market the group's different brands during the Olympics was the main reason for not taking up the sponsorship, the corruption scandal also played a part in the decision. "It was always going to be in the back of people's minds," he said.

Johnson & Johnson is the first company to admit the scandal contributed to its withdrawal from the Olympics. The group has been involved with the Games for several decades as a provider of products to US athletes, but had planned to step up its involvement and become a main sponsor of the US Olympic Committee (USOC).

The USOC and the Salt Lake Organising Committee (SLOC) still need to raise from sponsors about $300m in cash, goods and services to meet the $1.45bn cost of putting on the games.

Although US officials have admitted that some sponsors have been cautious about agreeing sponsorship deals because of the scandal, they remain confident about their ability to raise all the money needed for the event.

Mark Lewis, vice president of marketing at the SLOC, said yesterday: "We are in negotiation with about 25 companies and have found they are still very receptive to pursuing sponsorships." He said the Olympic organisers hoped to announce several new sponsors soon.

The scandal broke late last year when a senior IOC official claimed several IOC members had received money, gifts and other inducements to support Salt Lake City's bid for the 2002 games. Investigations revealed the city's bid committee had offered $1.2m in cash, scholarships and other gifts to IOC members.

'It was always going to be in the back of people's minds'

The findings led to the departure of several officials from the Salt Lake City organising committee and the resignation or expulsion of 10 IOC members. Also, the IOC was forced to change its bidding procedures and initiate other internal reforms.

Despite damage done to the Olympic movement by the bribery scandal, none of the 11 multinational corporations, which each pay the IOC about $50m for the main worldwide Olympic sponsorship rights, has pulled out of backing the Games.

However, at least one sponsor, John Hancock, US financial services group, has suspended plans to acquire Olympics-related advertising time on US network TV because of the bad publicity.

SOUTHERN CRUSADE APPEAL FOR RACES TO UNITE

Jackson trawls south to catch black vote

By Betty Liu in Waveland, Mississippi

On a cool morning yesterday about 30 residents, mostly black but some white, of the Mississippi town of Waveland trickled in through the creaky screen doors and grabbed a muffin or two as the reverend Jesse Jackson began his Southern Crusade speech.

A few moments later the enduringly influential Mr Jackson, hair a bit greyed but frame still sturdy, quietly implored the listeners to vote and fight for better healthcare, education, and a basic standard of living. Though the atmosphere was subdued, the message was the same: blacks and whites must unite to ensure economic security. And they must vote for the same leaders who will give that assurance.

Although Mr Jackson is spreading the message of economic unity and better welfare, the point of his tour is to encourage blacks to register and then vote Democrat. At the last congressional elections, in November, the Democrats succeeded in halting the Republican sweep of the South and reclaimed some of their old stamping grounds. Now the black vote is seen as central to the outcome of the next presidential election.

George W. Bush, the Texas governor and frontrunner for the Republican presidential nomination, has made a point of embracing black voters. His brother, Jeb, the governor of Florida, has done the same.

Mr Jackson's brief interlude in Waveland was a break in what has so far been a highly charged week-long crusade through backwater towns. Mississippi has the highest infant mortality rate in the country and the median income is a third less than the national average. Racial divides often run too far and too deep for political unity.

"Thirty years ago the South was so intensely divided on issues [of race]... and the right to vote that it couldn't address the economic issues of a unifying workforce," he says.

For him, the people gathering at his pit-stops – mostly in black churches – represent a new majority. He believes a unity of blacks and whites is forming against economic injustice – a majority that, in time, threatens to muffle the politics of an older South built primarily on racial fears.

He has, though, conspicuously strayed on to enemy ground. Despite the friendly handshakes and compliments on Sunday morning at the Galloway United Methodist Church in Jackson, local newspapers reported that some members of the congregation were upset that Mr Jackson was using the pulpit to preach politics.

The former presidential candidate says his Southern Crusade is solely about shared economic security and racial healing.

A senior member of his entourage says Ronnie Musgrove, Mississippi's lieutenant governor and Democratic candidate for the governorship, tried to stop the tour. Only when he realised striking steelworkers strongly backed Mr Jackson did Mr Musgrove then embrace, politically and physically, Mr Jackson's arrival in Natchez – the highest-ranking state official to do so thus far.

At the all-black New Hope Baptist Church in Jackson, one of the first stops on the crusade, there were a series of colourful paper circles taped to a hallway wall, arranged so that the circles formed the body of a caterpillar. Beneath a heading "Developing Good Characteristics", children's names were scribbled on the circles personifying what each one wanted. For Brad, peace; Adora, truthfulness; Kenneth, virtue; and Tyesha, friendliness.

They may be too young to vote, but the children listed qualities that many Americans seem to think are lacking in their politicians.

Jesse Jackson: influential campaigner implored his listeners to vote Reuters

Colombia to renew talks with guerrillas today

By Adam Thomson in Bogotá

The Colombian government will renew talks with leftwing guerrilla leaders today in what may prove the last realistic chance of hammering out a specific agenda to end 35 years of fighting.

The meeting with leaders of the Revolutionary Armed Forces of Colombia (Farc), the country's largest rebel group, ends a two-month deadlock after guerrillas unilaterally postponed the talks late in January.

On that occasion, Farc leaders decided to "freeze" the peace process until the government had shown "satisfactory results" in combating rightwing paramilitary groups which have mushroomed recently in response to the guerrillas.

There is little optimism the two sides will make much progress, despite the rebels' return to the table and government determination to agree on an agenda which will allow talks to begin in earnest.

Ending the conflict – estimated to have cost thousands of lives and more than two percentage points of gross domestic product growth a year – has become the main concern for President Andrés Pastrana's administration since it came to power last August.

In an unprecedented concession to the Farc last November, the government withdrew all its military presence from five municipalities – an area larger than Switzerland – so that talks could go ahead.

In contrast, the Farc, which numbers 12,000-15,000 and is now stronger than at any previous time in its 35-year history, has made no concessions.

Since talks officially started on January 7, the rebels have made no mention of a ceasefire during the peace process or of laying down their weapons in the event of a peace accord.

With just over two weeks before demilitarisation of the municipalities ends, analysts say the guerrillas will be pressing the government hard for an extension.

E-mails to target party activists

By Roger Taylor in San Francisco

Candidates in the race to win the nominations for next year's US presidential election are being offered a service that will allow them to target e-mail advertisements directly at registered Democrats and Republicans.

Aristotle Publishing, which specialises in providing internet services to political organisations, is working with leading internet service providers to match names and addresses of users with state lists of registered Democrats and Republicans. The result will be a database that allows messages to be sent only to people with one party affiliation or the other.

Being able to target these people is especially useful as they are often motivated by the more extreme political messages, which if broadcast generally could turn middle of the road voters against a candidate. "You want to get some red meat out there for the true believers," said John Phillips, Aristotle's president. His service allows candidates to do that without upsetting those with less strong stomachs.

Mr Phillips said that campaigners using the service would never have access to personal information about the people to whom they were advertising. However, the end result would be much the same, with political groups able to target registered voters of either party through a range of demographic indicators.

Mr Phillips said that in theory the service could allow advertisements to address each recipient by name. However, he added, no one wanted to do this for fear of frightening people off.

Aristotle is able to offer this service as it has created a database of all registered voters in the US. The service is particularly appealing to candidates in the early stages of a presidential campaign as registered party supporters have the greatest influence over the primaries.

Only about 30 per cent of voters are registered as supporters of one party or another, but these tend to be the most active politically and, in some states, are the only voters allowed to take part in primary elections.

Mr Phillips said he had already signed up a number of presidential campaigns for the service, although he would not disclose which. He added the internet was an ideal medium to reach registered voters as a high percentage of them were online.

Toronto hit by transport workers' strike

By Scott Morrison in Toronto

Striking workers shut down Toronto's public transport system yesterday, forcing about 800,000 commuters to find alternative means of getting to work.

Traffic on Toronto's streets was much heavier than normal during the morning rush hour but predictions of traffic chaos did not materialise. Bus and train users resorted to car pooling, taking taxis, cycling and walking to work.

Mike Harris, Ontario's premier, yesterday said he would recall the provincial legislature to legislate an end to the strike within a day or two. With a provincial election anticipated this spring, Mr Harris is widely expected to resolve the walkout quickly.

The strike is the latest example of growing unrest within Canada's public sector, which for several years accepted tiny wage increases in exchange for job security. That enabled the country's federal and provincial governments to reduce their deficits quickly. But union militancy has increased as more governments announce their finances are in order.

Toronto's 7,800 subway conductors, bus drivers and support staff, who have received a 1 per cent pay increase for the last seven years, voted overwhelmingly at the weekend to reject the transit commission's final offer. The union was seeking a 3 per cent pay increase for each of the next three years, while the commission had offered 2 per cent a year.

The commission collects about 80 per cent of its revenues through fares, with the remaining 20 per cent coming from the city of Toronto. But the mayor's refusal to raise local taxes has meant the commission does not have the revenue to meet union demands.

Most retailers and offices appeared to be operating normally yesterday. Canada's banks, headquartered in Toronto's central district, said they had implemented flexible work hours and were allowing some employees to work from home.

Taxpayers field $5bn sports bill

By Nancy Dunne in Washington

The major league ball parks, stadiums and arenas to which Americans flock have cost US taxpayers more than $5.2bn since 1989 and will cost at least another $9bn in coming years, says to a study released by the Washington-based Cato Institute.

The scramble for sports teams by US cities, marked by generous offers of taxpayer-financed stadiums and parks, benefits only players and team owners, who reap millions in TV revenues, the study says. In this century more than $20bn has been spent on homes for baseball, football, basketball and hockey teams.

Before the Great Depression, stadiums were built with private funds. These included baseball's Yankee stadium in New York and Wrigley Field in Chicago, and hockey's Maple Leaf Gardens in Toronto. Cleveland was the first city to give corporate welfare to baseball by financing a municipal stadium.

After that teams began to hop from city to city, looking for the best deals.

The baseball Giants moved from New York to San Francisco where they were given use of a 40,000-50,000 seat stadium.

The $32m facility was thought a failure because players were subject to cold winds blowing off San Francisco Bay.

Sports Pork: The Costly Relationship Between Major League Sports and Government. Available at http://www.cato.org/pubs/pas/pa-339es.html or from Cato Institute, 1000 Massachusetts Ave N.W., Washington, D.C. 20001

Ratings agency warns of risks of credit growth

By Robert Chote, Economics Editor, in Washington

A growing number of the world's financial systems are weakening in the face of excessive credit growth and falling asset prices, according to an analysis by credit rating agency Standard & Poor's.

Credit quality is deteriorating in 24 of the 61 countries monitored regularly by S&P, an increase of almost a third since its last report on financial system stress in October. Financial system strength is a key concern of international policymakers in the wake of the crises in Asia, Russia and Latin America over the last two years.

Brazil, Colombia, Ireland, Latvia, Norway, Oman, Romania, Turkey and the United Arab Emirates have all been added to the list of weakening financial systems since last autumn. But Chile has been taken off the list because of a modest decline in domestic credit relative to gross domestic product.

The report said that visible signs of weakness were now evident in nine countries: China, Colombia, the Czech Republic, Hong Kong, Japan, Malaysia, the Philippines, Romania and the Slovak Republic. Other apparently robust systems are also vulnerable, including Brazil, Greece, Turkey and the US.

"Some of these systems' fundamentals are so poor that half of their assets may become problematic, for others decline will be relatively mild," the report said.

Most of the financial systems identified by S&P are under pressure because of unsustainable aggregate credit growth or are vulnerable because of a marked shift in their external position. Others show signs of worsening fundamentals or eroding franchise value because the government is crowding out private credit.

S&P looks at a number of leading indicators of financial stress, focusing on credit growth, corporate and household indebtedness, asset-price inflation and external funding of financial institutions. But the indicators do not reflect other factors that can prompt a liquidity crisis, including rigid exchange rate regimes, high inflation, a history of confiscatory action on bank deposits or reliance on flows of capital that are sensitive to shifts in confidence.

Many countries have seen credit rise relative to the size of their economy over recent years. In the US, credit as a share of GDP has risen from 94.7 per cent in 1993 to 129.7 per cent in 1998, while in Ireland the ratio has risen from 70.6 per cent to 102.7 per cent over the same period. But these totals are modest in comparison with Thailand and Malaysia, where credit stands at about 160 per cent of GDP.

Change of heart on debt relief for poor countries

With present policies under fire even within the World Bank and the IMF, the world's rich nations are welcoming new proposals for lifting the burden of international debt, writes Robert Chote

Having spent ages insisting they were doing all they could to relieve the debt burdens of the world's poorest nations, the Group of Seven leading industrial countries have undergone a remarkable change of heart over the last three months. Spurred by a proposal from the new German government, they have been falling over each other to proclaim that debt relief should now be deeper, broader and faster.

This bidding war owes much to Jubilee 2000, an umbrella group of churches and other organisations that has used the approach of the millennium to campaign for debt cancellation. As a result, reform of the existing debt initiative for the 40 or so "highly indebted poor countries" (HIPCs) will be high on the agenda at next week's spring meetings of the World Bank and International Monetary Fund.

The existing scheme was launched in autumn 1996. Seven countries have so far qualified for relief worth $3.1bn in net present value terms (i.e. if it were provided as a one-off payment). Uganda and Bolivia have already received their relief, with the other five – Burkina Faso, Guyana, Ivory Coast, Mozambique and Mali – due to get theirs between now and March 2001.

But a document discussed by the executive boards of the Bank and Fund last week concedes that the initiative is less helpful than it looks. "For the first seven countries to reach the decision point, estimated scheduled debt service payments after receiving HIPC assistance are not dramatically different from the actual debt service paid for the period prior to the decision point," it says.

Debt service payments are expected to decline noticeably in Guyana after the relief has been delivered, but less elsewhere. Burkina Faso and Mali are actually expected to pay more. "In absolute terms the initiative may not be significantly reducing debt service from current levels paid," the document admits.

This is because many HIPCs are in arrears to other governments. So much of the relief will in effect be spent regularising relationships with creditors, rather than providing extra money to spend. The Bank and Fund point out that this will still prove valuable over time as economic reforms boost government revenues. But most outsiders believe the existing initiative offers too little, too late.

Five G7 countries have now put forward proposals to improve the initiative, with lobby group Oxfam International judging that Canada has the most impressive proposal to provide more relief, more quickly. Looking at the G7's, plus those of other countries, multilateral organisations and lobby groups, several common themes emerge.

Debt relief should be deeper. The present initiative aims to reduce debt burdens to a "sustainable" level, defined as a debt-to-export ratio of about 200 per cent. But this figure was based on the experience of all developing countries, not just the poorest. A collapse in Uganda's export revenues, reflecting lower coffee prices, has prompted many observers to argue that the target should be lower.

A more fundamental critique argues that the initiative should focus on the extent to which debt servicing diverts government revenues from poverty alleviation measures. The existing initiative does provide a few countries with relief on fiscal grounds, but this was a political fix to ensure that Ivory Coast would benefit. Many observers would like fiscal considerations to take centre stage, accompanied by greater incentives to use the proceeds explicitly for poverty alleviation.

There is also pressure to shorten the six-year policy track record that countries have to establish to qualify for relief, although the US may be reluctant. Germany also wants any increase in generosity to be conditional on efficient tax collection and debt management in the recipient countries.

There is a consensus for reform, but how will it be paid for when not even the existing scheme is fully financed yet? The current initiative is predicted to cost about $18bn in net present value terms, although less than $10bn in the likely event that Liberia, Somalia and Sudan cannot qualify. Canada's proposal to lower the debt-to-export ratio, cut the length of the track record and broaden eligibility could add another $16.8bn, to take one example.

There is now a consensus that some money should be provided by selling and reinvesting up to 10 per cent of the IMF's $30bn gold reserves. The UK has also called for some of the European Union's aid budget to be diverted. But financing an expanded initiative would need more resources still, especially as the World Bank's finances are already stretched and those of several other multilateral development banks near breaking point.

Bigger donations from individual donor governments look unavoidable. Having raised expectations so enthusiastically over the last three months, other donors are now waiting with interest to see if the G7 is willing to put its money where its mouth is.

Poor countries debt initiative
As of March 1999

Country	Assistance at completion point ($m)*	Date assistance to be released
HIPC debt relief released:		
Uganda	347	Apr 1998
Bolivia	448	Sep 1998
Commitments of HIPC debt relief:		
Burkina Faso	115	Apr 2000
Guyana	253	Q2, 1999
Cote d'Ivoire	345	Mar 2001
Mozambique	1,447	Mid 1999
Mali	128	Dec 1999
Sub-total	3,078	-
Visible commitments based on preliminary HIPC document issued		
Guinea-Bissau	500	-
Ethiopia**	636	-
Mauritania**	271	Spring 2002
Total	4,285	-

* In net present value terms ** Finalisation of debt relief packages for Ethiopia and Guinea-Bissau has been put on hold due to armed conflict

Sources: Fund & Bank Board decisions; HIPC documents; staff calculations

Nigeria set to cut civil service

By William Wallis in Lagos

Nigeria's military government is preparing to sack tens of thousands of civil servants, a development likely to lead to a showdown with the unions before the handover to the elected government next month.

A senior government official said yesterday that ministries and state companies had been asked to draw up lists of "dead wood" employees to be dismissed by the end of the month.

In practice, he said this could lead to the firing of up to 20 per cent of the public work force, or tens of thousands of job losses.

By way of an example, he said that out of 800 employees at the national planning commission, 452 were listed for the sack.

The government has no precise idea of the size of the civil service but estimates of the numbers on the federal and state payrolls reach more than 1m.

Once known for its respect of procedure and for providing continuity during military shake-ups, Nigeria's civil service is now bloated, demoralised and in desperate need of reform.

Civil servants can barely live on their tiny salaries, and often survive off bribes related to their functions, or earnings from other jobs, or trading. Sani Abacha, the late dictator, began reducing numbers last February.

But his retrenchment programme was stalled when he died last June and Abdulsalami Abubakar took over.

Since then, the government has been heading for a clash with the unions after not implementing a promised salary increase of 300 per cent.

Government officials say that only by cutting the work force severely, will any salary rise be possible.

In several states, workers went on strike last week demanding payment of salary arrears and implementation of a revised minimum wage of Naira 3,000 ($32) a month.

Soldiers have been drafted in to ensure continued supplies of water in some areas. Several states have threatened to cut back their workforces, most dramatically in the northern Kano state.

Here, the administration said it would sack 17,000 workers if they were not back at work by yesterday.

The official intention of the government is to resolve these disputes, and cut the workforce to a more manageable size by the time Olusegun Obasanjo, the president-elect, takes over on May 29.

But with only six weeks to go before the official handover, and industrial unrest growing, it seems likely that General Obasanjo will have to take on the unions early in his tenure.

The looming balance of payments crisis, and the depleted treasury he is likely to inherit, will leave him little room for manoeuvre in negotiations.

Gadaffi brokers 'Congo peace'

By Mark Huband in Cairo

Muammer Gadaffi, the Libyan leader, has brokered a peace agreement between the Ugandan and Congolese presidents, aimed at ending the nine-month war in the Democratic Republic of Congo, Libyan state media said. But the Congolese rebels said they were not party to the deal and it was meaningless without them.

Yoweri Museveni, president of Uganda, and Laurent Kabila, his Congolese counterpart, signed an agreement in Libya on Sunday which is intended to bring a ceasefire, the deployment of an African peacekeeping force and the withdrawal of foreign troops from Congo.

The Congo war now involves troops from Zimbabwe, Angola, Namibia and Chad fighting alongside President Kabila's Congolese army, against Rwanda, Uganda and rebels of the Congolese Rally for Democracy. Neither Rwanda nor the RCD has signed the deal.

Nevertheless, Col Gadaffi's role marks a further step towards strengthening his ties with sub-Saharan African countries. Two months ago he announced a shift in Libyan foreign policy, away from the Arab world and towards sub-Saharan Africa. The shift was regarded by regional analysts as having been rooted in the apparent reluctance of Arab leaders to support Libya in its conflict with the US and the UK over the Lockerbie bombing.

A decision in 1998 by African leaders to ignore an air embargo imposed on Libya by the UN was the catalyst for an agreement on the Lockerbie affair. The suspension of UN sanctions against Libya following its handover on April 6 of two men accused of planting the bomb, is expected to allow Col Gadaffi the opportunity to play a more active role in regional affairs.

But the extent of the Libyan leader's influence as a regional peacemaker in the Congo war will be determined by the response of the non-signatories to the deal.

Rwanda's backing of the RCD stems from its concern for the security of its western border with Congo. Uganda shares the same concern, but Mr Museveni's readiness to sign the deal has revealed the extent to which the conflict is now regarded as the source of insecurity for all Central Africa.

Machel tells of tragedy of Africa's child soldiers

By Victor Mallet in Maputo

More than 120,000 children, some as young as seven, are serving as soldiers in Africa's numerous wars, according to a report released yesterday at a conference in the Mozambican capital Maputo.

"We have to tell our governments and rebel groups that enough is enough," Graca Machel, children's rights campaigner, widow of the late Mozambican leader Samora Machel and now wife of Nelson Mandela, South African president, told the meeting. "If adults want to kill each other it's their responsibility, but we cannot accept children killing for us."

She commented bitterly on the recent spread of conflicts across a continent "boiling" with warfare. "It's as if we didn't have enough wars and still needed to start conflicts more bloody than the others." Mozambique, where thousands of children took part in a long civil war, is now at peace and struggling to rehabilitate the former soldiers into ordinary life.

The report, published by the multinational Coalition to Stop the Use of Child Soldiers, says the government armies of Angola, Burundi, Congo-Brazzaville, the Democratic Republic of Congo, Liberia, Rwanda, Sierra Leone, Sudan and Uganda are guilty of recruiting children "almost as a matter of course".

Rebel organisations also abduct children from schools and force them to join guerrilla armies as spies, helpers and front-line soldiers. Most child fighters are boys, but some are girls who are first used as "girlfriends" by adult troops.

Child soldiers are victims of cruelty and violence, but quickly become perpetrators as well, the report shows. In Algeria, for example, a woman described how some boys of about 12 who had helped massacre her fellow-villagers decapitated a 15-year-old girl and played "catch" with her head.

Africa is not the only continent with child soldiers – Asia and Latin America are also affected and there are thought to be about 300,000 soldiers worldwide below the age of 18 – but the problem in Africa has been exacerbated by the fragmentary nature of its civil wars, often involving several rival groups, and the length of time for which the conflicts continue.

Olara Otunnu, special representative of the UN secretary-general responsible for children affected by armed conflict, said that, in long-running wars, adults soon became disillusioned and armies resorted to children to make up their numbers. Children were recruited for the most cynical of reasons: they are "easy to indoctrinate, easy to mould into a ruthless, unquestioning, efficient weapon of war".

As yesterday's report points out, child soldiers in Africa can often be seen manning roadside checkpoints while adult troops stand well back "so that if bullets start flying, it is the children who are the first victims".

Even if wars could not be prevented or stopped, Mr Otunnu said, there should still be limits to wartime behaviour.

"Even if the midst of the war in the Congo, there is no reason to engage young persons who are the future of that society, who are innocent and who should be in school," he said.

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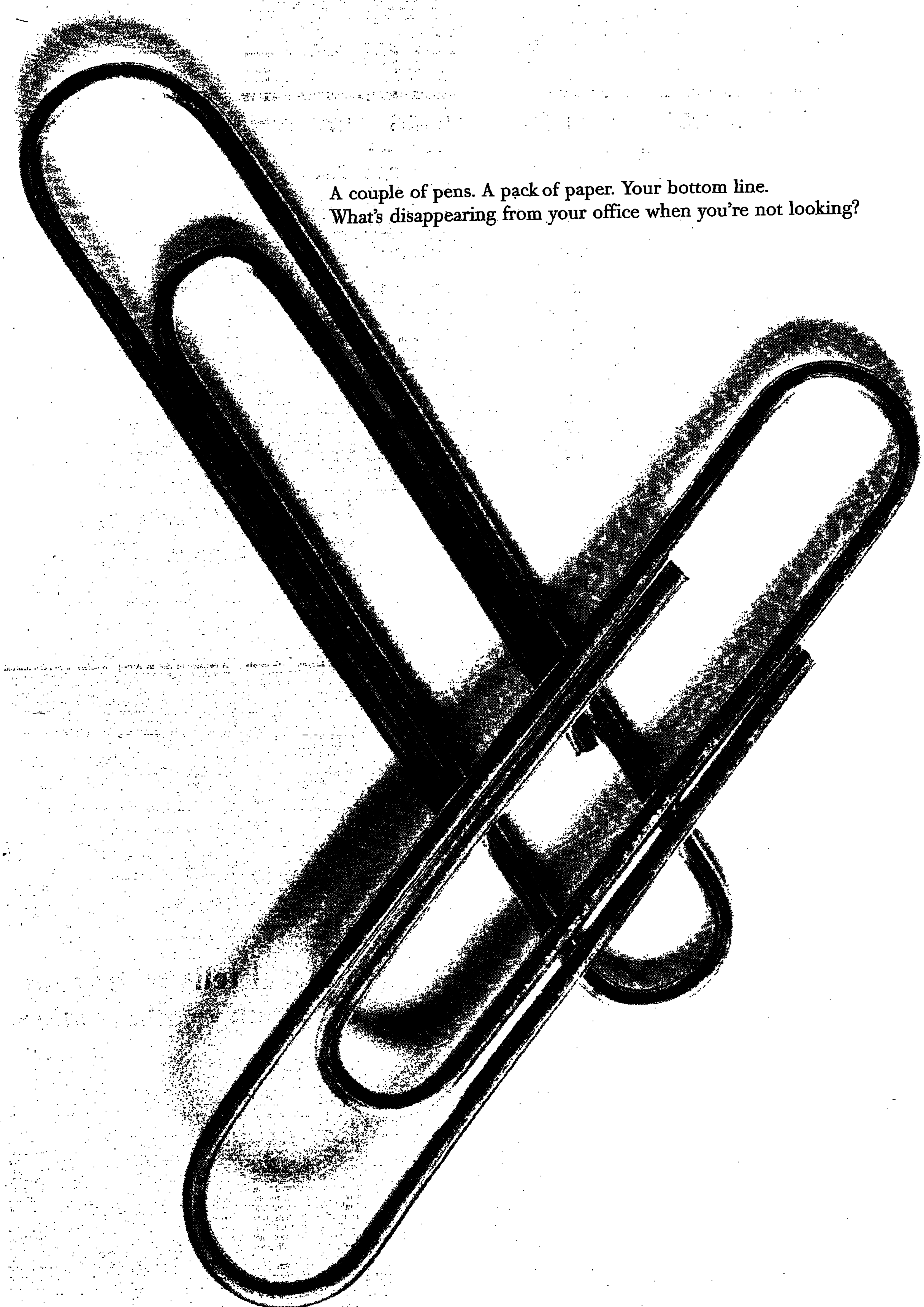
Nigeria set to cut civil service

A couple of pens. A pack of paper. Your bottom line.
What's disappearing from your office when you're not looking?



BLOW FOR TOKYO BANK CHIEF DENIES PROBLEMS IN ATTRACTING POTENTIAL BUYERS AS END-OF-APRIL DEADLINE DRAWS NEARER

Japan faces delay over sale of LTCB

By Gillian Tett and Naoko Nakamae in Tokyo

The Japanese government is experiencing "some delay" in its attempt to sell Long Term Credit Bank (LTCB), the recently nationalised bank, in a blow to Tokyo's push to resolve the country's banking-sector problems.

The admission yesterday by Takashi Anzai, LTCB president, suggests that the bank will not succeed in finding a foreign or domestic buyer before the end of April, as Mr Anzai had originally promised.

The sale of LTCB is considered a big test of the government's commitment to reform. The bank was the first to be nationalised last year as part of the Y60,000bn ($508bn) financial reform package of Keizo Obuchi, the prime minister.

A long delay could also prove embarrassing for Goldman Sachs, the US investment bank appointed earlier this year to find a buyer, the first time a western bank had been appointed to such a politically controversial role.

Mr Anzai yesterday denied that LTCB was experiencing problems attracting foreign or domestic potential buyers. "I have been surprised by how many candidates there are," he said.

The delay had occurred partly because LTCB wanted to ensure a "fair" competition between foreign and domestic purchasers.

Government officials are keen to avoid a recurrence of the valuation disputes that have dogged South Korea's attempts to sell its failed banks.

The LTCB delay threatens to undermine the planned sale of Nippon Credit Bank (NCB), which was also nationalised last year. The Financial Reconstruction Commission (FRC), the body overseeing financial reform, initially hoped to select a financial adviser to start NCB's sale last month.

This process has been postponed, partly because of the delay in the LTCB sale and partly because of a fresh controversy among bankers and politicians over Goldman Sachs' role in the deal.

Masao Nishimura, president of Industrial Bank of Japan, recently issued a strong public criticism of the tactics used by western banks in mergers and acquisitions, claiming that they "overcharge the clients".

Keiichiro Asao, a member of the opposition Democratic party, is pressing LTCB to publish its confidential contract with Goldman Sachs. "This will be paid by taxpayers' money so it is perfectly rational that it should be published," he said.

The FRC and LTCB have refused to do this, fearing it would dissuade other western banks from bidding for contracts.

Goldman Sachs has been offered a large financial incentive to conclude a rapid sale. The FRC fears that failure to do this could provoke further political controversy over the contract.

Mr Anzai yesterday said that he was hoping to sell LTCB with assets of Y12,000bn, after almost Y5,000bn of clearly bad assets were removed to government institutions.

Most observers expect that the bank will have to be broken up or sold at a sharp discount to find an independent buyer.

Mr Anzai said that one of "his priorities" was selling LTCB as a whole, to safeguard employee positions. He would be "flexible" in meeting a buyer's needs over other matters. "In the last resort, this is a business deal; it's about price," he added.

LTCB was initially estimated to be insolvent with about Y340bn worth of debts. But Mr Anzai said that this figure had risen to about Y2,600bn, if the bank's value was calculated according to "fire sale" prices.

Beijing plans fuel tax to fund roads

By James Harding in Shanghai

China will introduce a fuel tax in the second half of this year to replace road maintenance fees, part of the government's programme to impose regular taxes in the place of random charges.

The fuel tax is intended to create a more orderly tax environment for business but the new duties could weigh heavily on China's oil and refinery industries as well as the automotive market.

The fuel tax together with a vehicle purchase tax will fund the construction and maintenance of expressways, as the government phases out "illegal and irrational charges", the state media has reported.

Some Chinese oil refineries are concerned the tax could widen the differential between more expensive domestic fuel and imported oil products. They fear it may stimulate the smuggling of oil products, which dealt their industry a severe blow in 1997-98.

Automotive manufacturers, frustrated by the slow growth of the domestic passenger car market and worried about the prospect of competition from cheaper imported cars when China finally enters the World Trade Organisation, also have reservations about new taxes that may add to consumer reluctance to buy a new vehicle.

The tax will be set at Rmb1 ($0.12) per litre of diesel and Rmb1.2 ($0.14) per litre of gasoline.

The cheaper rate for diesel aims to boost the use of heavy duty trucks and diesel-powered passenger vehicles, the official China Daily Business Weekly said.

Eliminating road fees is likely to be difficult, as many of the charges are levied by local authorities to lift flagging tax income. Implementing the new tax may be problematic as there is no collection system in place.

It will be hard to enforce taxes on many fuel users – for example, ships, machinery and farm vehicles.

The rationalisation of the tax system, however, is essential to the government, particularly as Beijing pursues a programme of fiscal expansion to reflate the economy. China has forecast a budget deficit of Rmb150bn ($18bn) this year, up 56 per cent from 1998, partly because of continuing infrastructure spending.

Chinese government revenues reached Rmb232.4bn in the first quarter of this year, up 26.1 percent year-on-year, lifted in part by customs duties as imports rose strongly over the last three months, the state-owned Economic Daily has reported. Excluding debt and interest service payments – a growing part of government spending – fiscal expenditure rose 17.5 per cent year-on-year to Rmb154bn.

Car sales in China grew 10 per cent in the first quarter of this year compared with the same period of 1998, the official International Finance News reported yesterday. The growth to 117,000 sales outpaced the 7 per cent rise for all of last year, pointing to a slight recovery of China's automotive industry, the newspaper said.

Howard to fly to Indonesia as East Timor alarm grows

By Gwen Robinson in Sydney

The Australian government yesterday signalled its growing alarm about escalating violence in East Timor with a sudden decision by John Howard, Australian prime minister, to visit Indonesia for talks with B.J. Habibie, the country's president.

Mr Howard said he would meet Mr Habibie within the next 10 days, probably on the Indonesian island of Bali, to discuss the deteriorating situation in East Timor.

Earlier, Mr Howard spoke with Mr Habibie by telephone to express "deep concern" about violence at the weekend in the troubled island province that resulted in at least 30 deaths.

Mr Howard's plans for an emergency visit come amid efforts by Australia to secure a pivotal role in international negotiations over the future of East Timor, a former Portuguese colony forcefully annexed by Indonesia in 1976.

They also highlight Canberra's growing fear that the crisis in Kosovo is diverting international attention away from East Timor and growing instability in other parts of Indonesia ahead of the country's June national election.

Australian officials said privately the biggest concern was the prospect of uncontrollable violence spreading throughout the Indonesian archipelago, leaving neighbouring Australia to deal with the consequences.

Last month, Australia moved to double its number of combat-ready troops and station a 3,000-strong "ready deployment force" in the northern city of Darwin – one of the closest points to East Timor.

Mr Howard said the fact Mr Habibie agreed to meet at short notice indicated he understood and recognised Australia's concern as "very important".

He said: "I don't want anybody to be left in any doubt that we believe the situation has deteriorated sharply."

In the strongest statement yet on the role of Indonesia's armed forces in East Timor, Mr Howard said that paramilitary groups terrorising Timorese pro-independence campaigners appeared to be acting with the tacit approval of the Indonesian military.

He said he had told Mr Habibie there was an "unmistakeable impression" in Australia that the armed forces were not working to contain violence in East Timor.

Mr Habibie "did not dissent" from that view, Mr Howard said.

Australian officials have privately said that intelligence reports suggest that Indonesian troops are supplying pro-Jakarta paramilitia with arms to foment violence ahead of talks at the United Nations in New York.

The talks with Portugal, the next round of which is on Thursday, are intended to set the framework for a vote on the future of East Timor following Mr Habibie's offer of autonomy or full independence by January 2000.

East Timorese guerrilla leader Xanana Gusmao after meeting Indonesia's justice minister in Jakarta yesterday Reuters

ADB urges Asia push to speed open trading and secure prosperity

By Peter Montagnon, Asia Editor

Asian developing countries must become more aggressive in pushing for an open trade system if they are to secure growth and prosperity in the medium term, the Asian Development Bank (ADB) says today.

A modest recovery is expected for 1999 with the recession ending in south-east Asia and the newly industrialising economies of Hong Kong, Singapore, Taiwan and South Korea.

Across developing Asia as a whole, growth should accelerate to 4.4 per cent from 2.6 per cent in 1998, the bank says in its annual Development Outlook.

But while sections of the report hint at sympathy for curbs on capital account transactions, the bank says Asian developing countries "must not flinch from their commitment to openness," in trade if longer term recovery is to be secured.

The report urges them to take a "pro-active" common position in the new round of multilateral trade negotiations, expected to be launched at a World Trade Organisation meeting in the US this autumn.

This would include insistence on further tariff reductions for manufactured goods and a controversial call for an end to regional trade arrangements such as those operated by the European Union with the countries of eastern Europe, the North American Free Trade Agreement (Nafta) and Mercosur in South America.

Trade preferences under such regional arrangements have had "a large and increasing effect on trade diversion" at the expense of Asia and have distorted flows of foreign direct investment, it says. Asia should call for a clause requiring trade preferences granted within such arrangements to be extended to all WTO members within ten years.

If the industrial countries continue to insist on negotiating a multilateral agreement on investment, Asian developing countries should demand that such an agreement also include China and be negotiated in return for a more liberal agreement on labour mobility, the report says. The implication is that China must be made a member of the WTO before negotiations on investment are launched within that body.

The report said such countries as India and China which had maintained restrictions on capital account transactions had not been engulfed by the financial crisis that hit the rest of Asia in 1997. That did not mean countries which had a high degree of convertibility should close their capital accounts, but they may wish to introduce some "friction" in financial flows, for example by imposing taxes on short term flows.

"While developing countries should aim for integration into the international financial system, this should not imply a reckless rush to capital account convertibility," the bank said.

In an analysis of the debate on reform of the world financial architecture, the bank expressed support for the idea of revision of international bond contracts to allow for more orderly debt restructuring. Industrial countries should take the lead in this area, it said.

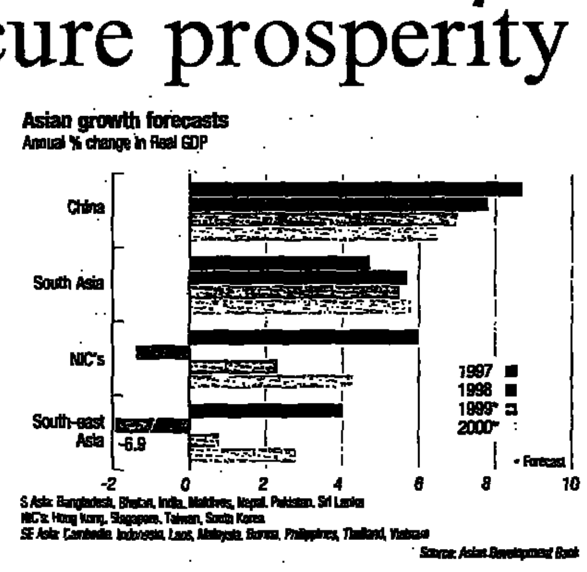
A network of private sector credit lines backed up by multilateral guarantees would also help protect developing countries against contagious financial market crisis.

These proposals, likely to be further discussed at the IMF's spring meeting in Washington this week, would help reduce risk of future financial crisis without requiring a new bureaucracy or large investment of public funds, it says.

The report is more ambivalent on the idea of an official Asian Monetary Fund, though its analysis expresses sympathy with the idea that such a fund could complement the International Monetary Fund in providing funds to crisis-affected countries and in developing an early warning system.

Asian growth forecasts

Annual % change in Real GDP



S Asia: Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka
NIC's: Hong Kong, Singapore, Taiwan, South Korea
SE Asia: Cambodia, Indonesia, Laos, Malaysia, Burma, Philippines, Thailand, Vietnam
Source: Asian Development Bank

Modest recovery seen in 1999 with recession ending in south-east Asia

China's exports may fall 5%

By Peter Montagnon

China's exports are expected to fall 5 per cent this year and recover by only 1.9 per cent in 2000 as the country's manufacturers struggle with a weak external environment, the Asian Development Bank warns today.

The bank makes no mention of the debate over devaluation in China, but admits currency factors are one reason for its bleak forecast. Top Chinese officials have repeatedly rejected the devaluation option.

The substantial depreciation of many Asian currencies "may eventually erode the competitiveness" of Chinese exports, the bank says.

About 30 per cent of Chinese exports compete directly with products produced elsewhere in the region.

More generally the Asian regional economic crisis will continue to damp demand for China's exports as about 60 per cent of the total are shipped to the region, it says.

China will begin importing more from the rest of Asia as efforts to stimulate domestic demand begin to bear fruit, the bank says.

China's current account balance of payments surplus will fall to just 1 per cent of gross domestic product this year from 2.5 per cent in 1998. Next year it will almost disappear, ending up at a mere 0.5 per cent of GDP, the bank warns.

Other Asian economies are likely to have a much better year.

Taiwan's exports will rebound 9.5 per cent in value after falling by a similar amount in 1998. Export growth in the Philippines will remain high at 13 per cent compared with 16.9 per cent.

But Hong Kong will recover much more slowly. Its exports will grow only 0.5 per cent this year after falling 7.5 per cent in 1998.

Manila market bounces back

By Tony Tassell in Manila

Interest rates and the stock market in the Philippines yesterday returned to the levels seen before the onset of the Asian economic crisis.

On the birthday of Joseph Estrada, the Philippine president, in what has already been dubbed the "Erap" rally after the nickname for the movie star turned politician, Manila shares rose sharply in response to bigger-than-expected cuts in interest rates by the Philippine central bank.

The benchmark PSE 30 Index leapt 122 points or 5.5 per cent to 2,355, its highest level since late August 1997, after the central bank made its 10th cut in overnight rates this year and cut the minimum liquidity requirement for commercial banks by one percentage point.

The 50 basis points cut in the central bank's overnight borrowing rate to 10.875 per cent and the reduction in liquidity requirements were aimed at stimulating the country's still-subdued economy, by further encouraging a pick-up in currently depressed loan growth.

The Philippine stock market, in contrast, has now more than doubled from a low of 1,082 on September 11 last year.

Matthew Sutherland, head of research at Paribas Asia Equity, said the falls in interest rates have been an important factor behind the rally. At the same time, the average yield on the benchmark 91-day treasury bills has fallen to 10.361 per cent.

This is the lowest since the average yield hit 10.356 per cent on June 23 1997, just before the regional crisis started to gather momentum.

At the same time, yield on 10-year US dollar denominated Philippine government bonds have dropped to 8.4 per cent from about 15 per cent at the time of the Russian debt crisis late last year.

Brokers say increased confidence also has driven the latest stock market rally. Jojo Gonzales, strategist at Merrill Lynch, said average daily trading volumes had increased by about 40 per cent from levels seen in February and March to about 1.4bn-1.5bn pesos ($36.6m-$39.2m).

The rally yesterday may also have had some assistance.

In a country where the extent of the politics of patronage can be measured by the expansive press coverage of the president's birthday, there was more than a little speculation about some politically inspired buying.

"Although there has been some strong foreign buying, there were also rumours that some local brokers got together to help boost the market as a birthday present to 'Erap'," one broker said.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

	UNITED STATES					JAPAN					GERMANY				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1988	109.9	103.2	106.8	100.2	71.0	102.3	92.3	107.8	95.8	131.0	101.4	96.2	110.1	106.9	109.9
1989	115.2	108.5	109.9	101.9	74.9	105.1	94.2	114.0	96.6	123.5	104.2	99.3	113.1	108.0	107.5
1990	121.5	113.9	113.5	104.9	73.2	108.3	95.7	120.1	99.5	108.2	107.0	101.0	118.0	110.3	109.9
1991	126.6	116.3	117.3	108.4	74.1	111.9	96.8	124.2	103.6	113.2	110.9	103.4	125.3	109.6	107.5
1992	130.4	117.7	120.1	108.4	74.0	114.0	95.9	125.6	112.5	114.5	116.5	104.9	133.0	115.3	110.0
1993	134.3	119.2	123.1	108.7	76.4	115.4	94.3	125.8	117.6	131.9	121.7	105.1	148.1	119.4	111.3
1994	137.8	119.9	126.5	108.0	74.1	116.2	92.6	128.4	117.2	137.3	125.1	105.7	152.4	112.1	109.8
1995	141.7	122.2	129.7	105.4	68.7	115.9	92.0	132.5	114.5	138.3	127.4	107.5	159.4	110.8	114.7
1996	145.8	125.4	133.9	102.6	73.4	115.6	90.4	135.8	112.5	117.7	129.3	107.1	163.3	108.7	109.9
1997	149.2	125.9	138.0	101.5	79.1	117.4	91.0	139.7	109.9	111.5	131.5	108.2	165.5	103.1	104.8
1998	151.5	124.8	141.5	101.8	82.9	118.3	89.8	138.0	116.5	103.7	132.8	107.8	168.2		105.1
2nd qtr.1998	1.6	−0.8	2.9	0.5	83.4	0.6	−1.9	−0.2	7.8	100.9	1.4	0.1	1.7	−3.4	104.7
3rd qtr.1998	1.6	−0.6	2.4	0.9	84.9	−0.1	−1.9	−1.9	7.7	97.3	0.7	−0.7	1.8	−2.8	105.7
4th qtr.1998	1.6	−0.5	1.8	−0.7	81.1	0.7	−2.0	−1.9	5.0	107.6	0.4	−1.7	1.8	0.5	105.8
1st qtr.1999	1.6	0.8	1.9		82.7	−0.2				108.9	0.3				104.2
April 1998	1.4	−0.9	2.9	0.2	82.7	0.7	−2.0	−0.2	6.1	103.7	1.5	0.3	1.6	−3.9	103.9
May	1.7	−0.8	3.0	0.2	83.1	0.8	−1.9	−0.1	11.2	100.9	1.4	0.1	1.8	−4.7	105.2
June	1.7	−0.7	2.7	1.2	84.4	0.4	−1.8	−0.2	6.2	97.9	1.4	−0.1	1.8	−1.7	105.2
July	1.7	−0.2	2.1	1.2	85.2	0.0	−1.9	−2.4	8.2	97.5	0.9	−0.4	1.7	−2.6	105.5
August	1.6	−0.8	2.3	0.4	86.2	−0.1	−1.8	−2.8	8.4	95.3	0.6	−0.8	1.9	−3.8	105.7
September	1.5	−0.9	2.8	1.2	83.3	−0.1	−1.9	−0.1	6.6	98.9	0.6	−1.0	1.9	−1.3	106.1
October	1.5	−0.7	2.0	−0.2	80.5	0.4	−1.9	0.5	6.8	106.4	0.5	−1.4	1.9	−1.2	106.2
November	1.6	−0.6	1.8	−0.7	81.2	1.0	−2.1	1.8	3.5	107.5	0.5	−1.8	1.8	−0.8	105.6
December	1.6	−0.1	1.6	−1.2	81.5	0.8	−2.0	−4.2	4.8	108.8	0.4	−1.9	1.9	3.6	105.5
January 1999	1.7	0.9	1.9	−1.2	80.9	0.1	−2.2	−2.3	7.1	111.7	0.2	−2.3			105.0
February	1.6	0.5	1.9	−1.7	82.6	−0.2	−2.1	0.4		108.6	0.2	−2.4			104.0
March	1.7	0.8	1.8		84.8	−0.5				106.2	0.4				103.4

	FRANCE					ITALY					UNITED KINGDOM				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1988	108.8	103.5	111.5	112.8	102.1	116.5	105.7	118.4	108.5	100.9	113.0	108.7	126.2	101.6	101.9
1989	112.6	108.7	115.8	118.1	99.7	124.2	112.0	125.6	113.6	105.1	121.6	113.9	137.3	107.0	100.5
1990	116.5	107.7	121.5	119.9	102.9	131.7	116.2	134.7	122.5	111.9	133.3	121.0	151.1	113.3	101.4
1991	120.2	106.4	127.1	125.2	100.7	140.3	120.0	147.8	134.2	113.1	141.2	127.5	162.9	118.9	104.4
1992	123.1	105.3	132.3	129.9	104.2	147.7	122.3	155.7	138.8	109.5	146.4	131.5	173.7	119.0	100.9
1993	125.6	103.0	135.6	133.8	108.6	153.9	126.9	161.4	145.6	95.2	148.7	136.7	181.6	118.8	93.1
1994	127.7	104.2	138.2	137.9	106.1	160.0	131.6	166.9	139.9	93.3	152.4	140.1	190.8	118.4	94.1
1995	130.0	109.6	141.5	139.1	106.1	168.5	142.0	172.4	139.6	90.3	157.6	146.0	199.2	123.0	90.7
1996	132.6	106.7	144.9	142.1	106.3	175.0	144.7	177.4	146.6	102.0	161.5	149.6	208.0	129.1	93.2
1997	134.2	106.1	149.0	146.1	102.2	178.2	146.6	183.8	148.7	102.7	166.5	151.0	216.6	134.0	108.5
1998	135.1	105.2	152.3		102.0	181.2	146.7	188.6		104.3	172.2	151.8	226.4	139.6	111.1
2nd qtr.1998	0.9	−0.3	2.4	3.1	101.9	1.8	0.6	3.1	−1.8	103.4	4.0	1.0	4.6	4.1	112.5
3rd qtr.1998	0.5	−1.3	2.1	2.5	102.0	1.8	−0.2	2.8		105.1	3.3	0.5	4.6	3.8	111.7
4th qtr.1998	0.2	−2.3	2.0		103.1	1.6	−1.2	2.6		106.0	3.0	0.0	3.7	2.4	107.4
1st qtr.1999					102.1					105.8		0.2			109.4
April 1998	1.0	0.0	n.a.	3.2	101.5	1.8	0.9	3.0	n.a.	102.4	4.0	1.0	5.0	4.8	114.4
May	0.8	−0.3	n.a.	3.1	102.1	1.7	0.6	3.2	n.a.	103.6	4.2	1.0	4.4	3.9	110.4
June	0.9	−0.7	n.a.	2.9	102.0	1.8	0.4	3.0	n.a.	104.0	3.8	1.1	4.4	3.6	112.7
July	0.8	−1.0	n.a.	2.6	100.8	1.8	0.3	2.5	n.a.	104.6	3.5	0.8	4.9	4.4	112.9
August	0.5	−1.3	n.a.	2.5	102.0	1.9	−0.3	3.0	n.a.	105.0	3.3	0.5	4.6	3.6	111.9
September	0.3	−1.6		2.3	103.1	1.8	−0.5	3.0		105.7	3.2	0.3	4.3	3.4	110.2
October	0.3	−2.1		2.4	103.5	1.7	−0.9	2.6		106.3	3.1	0.1	4.4	3.5	107.2
November	0.0	−2.3		2.4	102.8	1.5	−1.3	2.5		105.9	3.0	0.1	3.5	2.1	107.0
December	0.2	−2.5			102.9	1.5	−1.3	2.5		106.1	2.6	−0.1	3.3	1.7	106.8
January 1999	0.2	−2.7			102.8	1.3	−1.6			106.1	2.4	−0.1	4.1	1.4	106.0
February	0.2	−3.0			102.0	1.2	−1.8			105.7	2.1	0.2			107.4
March					101.5					105.5		0.5			109.4

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, France - engineering industry, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

Malaysia eyes floating global bond

By Sheila McNulty in Singapore

Malaysia is studying proposals from international investment banks to help it raise money, as early signs of a turnaround in economic data prompt it to consider reviving plans it shelved last year to float a global bond.

Mustapa Mohamad, second finance minister, said yesterday the government was examining the international bond market for opportunities while it monitored bonds issued by other countries in the region.

He declined to give the names of investment banks that have put forward five or six proposals and are urging Malaysia to launch an issue.

Last year, Malaysia was forced to withdraw plans to raise funds in the global bond market for its economic recovery when international rating agencies downgraded the country and the authorities decided it was not worth paying the premium then required.

Malaysia has discouraged investors since the regional crisis began by imposing capital controls, blaming foreigners for its recession and declining to restructure its banking and corporate sectors.

Instead, it has sought to rescue as many banks as it can and lure investors back.

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INSURANCE AGREEMENT BRINGS FUNDS THAT SUPPORT POLICIES TO $1.2bn

Lloyd's in $560m deal with top insurers

By Jim Kelly in London

Lloyd's of London said yesterday it had signed a five-year agreement with six of the world's top insurers to cover its central mutualised fund for £350m ($563m) – increasing to £800m the resources that support the market's policies.

Max Taylor, chairman, said the participation of the insurers – each of which had to undertake extensive due diligence into the risk profile of Lloyd's, – was a "huge vote of confidence" in the market's prospects.

"It also increases our attractiveness to capital providers," he added, as it made it less likely the funds they pledged to the market would be needed. It should also reduce members' contributions more quickly than planned.

The insurers are Swiss Re, Employers Re, The St Paul Companies, Hannover Re, XL Mid Ocean Re and Chubb Corp. The policy – effective between 1999 and 2003 – has an annual excess point of £100m, an annual limit of £350m and an aggregate maximum payment over a five-year period of £500m. The premiums are to be disclosed in annual accounts.

Mr Taylor said the agreement was part of the long-term strengthening of the market's security and was not related to specific trends in the insurance sector, which was experiencing adverse conditions.

With the existing central fund of £175m and the ability to call upon up to £300m from members of Lloyd's, the cover takes the mutualised funds to $1.3bn (£800m).

The announcement is also likely to be seen as a further strengthening of the mutual status of Lloyd's. Mr Taylor said the agreement was a way of leveraging the asset of the central fund. "It emphasises the commitment to mutualisation," he said.

Lloyd's is unique among world insurance markets in that all underwriting members – both Names, the individuals who have traditionally supported the market, and the new corporate investors – support each other through the mutual central fund in case any one of them cannot meet a claim.

The design of the new cover was initiated by the risk unit at Lloyd's and Benfield Greig. The brokers were Benfield Greig and Aon.

The extent of the cover taken on by each of the six is confidential. It is understood the agreement is structured to make sure claims suffered by the six insurers could not have an adverse effect on the Lloyd's market.

The agreement provides further assurance for rating agencies. AM Best currently gives Lloyd's an A and Standard & Poor's an A+.

Today's techno-elite tread path first carved out in clay

Information technology has made millionaires of young entrepreneurs. But, **Robert Chote** *asks, is it the centrepiece of a new industrial revolution?*

There are 10 entrepreneurs in Britain who have amassed fortunes of more than £5m ($8m) before their 30th birthdays, according to a recent survey.

They typify the young "techno-elite". Eight made their money from the computer, telecoms and internet services industries. The other two are the producer and director of *Lock, Stock and Two Smoking Barrels*, the trendy low-budget gangster movie that was one of the most successful British films last year.

The sight of people making so much money at so tender an age could be construed as further evidence that Britain is in the midst of a new industrial revolution, comparable to that which transformed working lives and created fortunes in the 18th and 19th centuries.

Technological progress, notably in information technology and biotechnology, certainly appears to be moving at an incredible pace. It is creating business opportunities and encouraging innovation in other sectors from the delivery of medical advice and retailing, to the distribution of music.

But pervasive though these new areas are, do they really add up to an industrial revolution? Bradford de Long, of the University of California at Berkeley, points out that the current pace of technological advance is not without precedent. For the past 200 years, he maintains, there has always been some leading sector in which the pace of innovation has been extraordinarily rapid.

"The economy cycles through a number of leading sectors: textiles, transportation, construction, textiles again, watches and jewellery, telegraphs, construction again, telephones, transportation again, household utilities, household appliances, broadcasting, textiles and apparel, and medical care – all before the microelectronics revolution," he argues.

"It will continue to cycle through different leading sectors in the future, long after the pace of technological change in microelectronics has slowed down."

But he concedes that talk of a "new" economy may be justified because of the central role of information in the goods and services that it produces. The familiar rules under which demand and supply determine prices work well in a market economy dominated by tangible goods but they are more difficult to apply when the production and distribution of information are more important.

The growth of the internet has brought enormous entrepreneurial possibilities, although it remains to be seen if some of the fortunes it has generated for its commercial pioneers stand the test of time. The social impact, though, is indisputable.

The number of internet users in the UK is expected to almost treble to 17m by the end of 2000. This will have important distributional consequences. Patrick Foley, group economic adviser at Lloyds Bank, has estimated that the pool of national income in the hands of the computer literate population will treble in the next decade, while technophobes will enjoy a rise of only 25 per cent.

"Whilst new technology will raise average living standards, it is also likely to result in an increasingly bipolar distribution of income," Mr Foley says.

This division between technophile and technophobe will manifest itself in the labour market. Business Strategies, the consultancy, expects demand to rise for "people who are highly skilled, who exploit knowledge and intelligence rather than physical strength or dexterity, who are mostly well paid and who have high chances of being in work as long as they wish".

For example, they expect the number of associate professionals – the "new skilled" such as legal executives and computer programmers – to have increased from 2.6m in 1996 to 2.9m by 2001. The number of people working in media, culture and design should rise 5 per cent a year over the same period, almost twice as quickly as in the early 1990s.

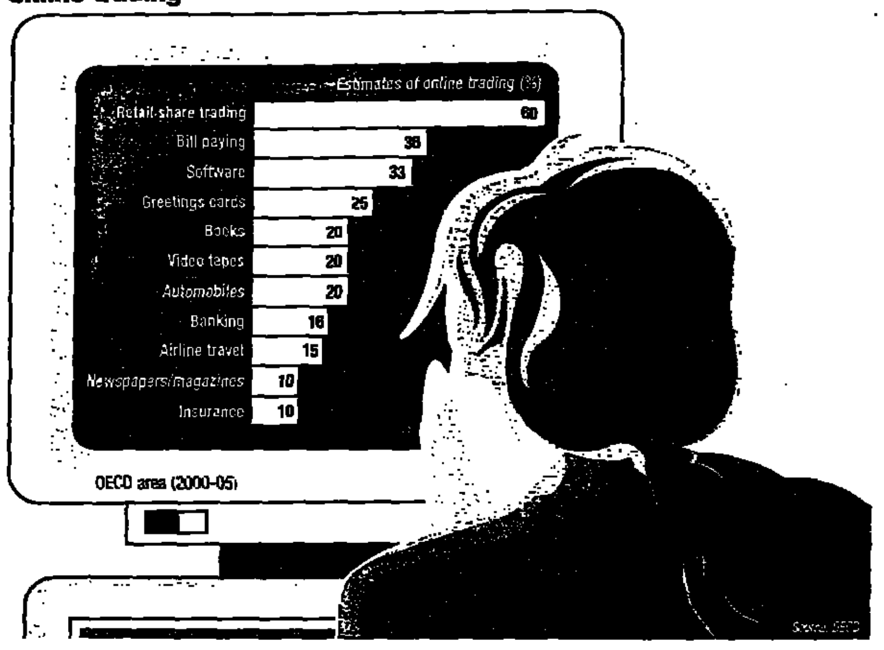
However, there is evidence in a study from Manchester's Centre for Research on Innovation and Competition that small, innovative firms do not generate many jobs.

The potential for greater inequality has also been identified by Danny Quah, professor at the London School of Economics, who has pioneered the concept of the "weightless economy".

He says the importance of knowledge and information in economic development is nothing new. "Economies have been knowledge-based at least since Sumerians in the Mesopotamian river basin began carving cuneiform financial records on to clay tablets 5,000 years back," he explains.

So in looking at the experience of individual people and firms in the "techno-elite", it is as well to remember that innovation takes place all the time. Economists and historians are still arguing about the first industrial revolution; we cannot expect to know the significance of today's for many years.

Online trading



NEWS DIGEST

THE ECONOMY

Interest rate cuts fail to boost consumer confidence

Interest rate cuts and tax cuts offered in last month's national Budget failed to boost consumer confidence, according to a survey by GfK Great Britain on behalf of the European Commission. It found that consumer sentiment was unchanged this month compared with March and remains positive. But personal financial confidence fell despite interest rate cuts and a 1p cut in the basic rate of income tax announced in the Budget, which takes effect next year. However, consumers remain more optimistic about the state of their personal finances than they do about the state of the economy as a whole.

A majority of those expressing an opinion think the UK economy will worsen over the next 12 months.

But the number is getting smaller, with confidence in the general economic situation back at last summer's levels. **Richard Adams, London**

BMW

Land Rover plans rail link

BMW and its Land Rover division plan to invest £40m ($64m) in a rail line linking its plant at Solihull, in the English midlands, with the national rail network. It is claimed the scheme would save more than 100,000 heavy truck movements a year. It would also allow Land Rover to rail freight more than 100,000 vehicles a year for export directly to continental European markets via the Channel tunnel between England and France, or to Southampton, on the English south coast, for shipment to the US and other overseas markets.

Components would be brought by rail directly to the assembly lines from plants as distant as BMW's main engine production facilities in Bavaria.

The terminal facilities and the 4km line, intended to connect with the West Coast main line near Birmingham International station, will require formal approval from the Department of Environment, Transport and the Regions. The project is almost certain to involve a public inquiry. **John Griffiths, London**

LONDON BOMB

Responsibility claimed

A man claiming to represent Combat 18, a neo-Nazi organisation, yesterday said the group was responsible for planting the nail bomb in the London district of Brixton that injured 39 people on Saturday. Police said they had received a call, but added that there was "no intelligence at this time to support this claim".

Alan Fry, head of the London police anti-terrorist branch, said detectives were studying closed-circuit television footage taken at the site of the bomb. Combat 18 – which takes its name from the alphabetical order of Adolf Hitler's initials – was formed in 1992 when extreme rightwingers split from the British National party, saying its leadership was too weak. It is believed to have about 80 members and extensive links with football hooligan gangs, pro-British "loyalist" terror groups in Northern Ireland and other international far-right organisations.

Its slogan is "White Revolution is the Only Solution". ***Simon Buckby and Sathnam Sanghera, London***

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PEACE PROCESS PARTIES TO MEET AGAIN

London talks fail to lift Ireland arms deadlock

By Rosemary Bennett, Political Correspondent

Five hours of talks between Northern Ireland's main political parties in London yesterday failed to achieve a breakthrough in the deadlock over disarmament by terrorist groups.

But all the parties did agree to attend a new round of negotiations next week and ruled out putting the peace process on hold until the autumn.

A spokesman for Tony Blair, the British prime minister, said: "All the parties agreed there was no question of 'parking' the process. Nobody is walking away from this process. Six months of delay would create a vacuum when what we need to happen is for the talks to continue."

No venue has been set for next week's talks, which could be held in London, Belfast or Dublin. They will again be chaired by Mr Blair and Bertie Ahern, his Irish counterpart, who will talk to parties individually, not at round table negotiations.

After the talks, Mr Ahern urged both republicans and pro-British unionists to make concessions in the arms dispute.

"I don't expect either side to lose all but neither do I expect either side to win all. I am not asking either side to concede totally their position," he said.

David Trimble, leader of the Ulster Unionists and the province's first minister-designate, wants the Irish Republican Army to start handing in its weapons before Sinn Féin, its political wing, takes seats on the new power-sharing executive.

Sinn Féin says this is not a pre-condition set out in the Good Friday peace agreement and insists it is not in its power to deliver IRA decommissioning.

Sinn Féin said the peace process was in crisis. "We do remain convinced that problems remain. They have not been solved. Our view that the Good Friday agreement is in free fall remains," said Mitchel McLaughlin, its chairman.

Mr McLaughlin also described as "dead" a blueprint drawn up earlier this month by Mr Blair and Mr Ahern, setting out a timetable for decommissioning and the establishment of the ruling executive.

The prime minister's office said that since the so-called Hillsborough declaration was the premiers' best bet on a resolution, talk of it being dead or alive was irrelevant. "Those two issues in the declaration remain and have to be faced up to. The sequencing and choreography have to be worked out," said an official.

The British and Irish governments are eager to keep up momentum in the process, especially as the difficult summer parades season approaches.

Mr Trimble gave a more upbeat assessment of the talks when he emerged from the talks. "I am quite sure that the process is not in free fall and is not going to be in free fall. This process is much more robust than that. I don't think it is helpful to suggest that this process is close to collapse."

Martin McGuinness (left), Gerry Adams (right) and Mitchell McLaughlin, who said the process was in 'free fall', arrive at the talks Reuters

ELECTION CAMPAIGN LABOUR ATTACKS NATIONALISTS' PLAN

Scottish independence 'threatens 367,000 jobs'

By James Buxton, Scottish Correspondent

Gordon Brown, the chancellor of the exchequer, yesterday attacked the Scottish National party's policy of independence, warning it would put 367,000 jobs in Scotland at risk.

He claimed that one-third of manufacturing jobs and one-fifth of all jobs in Scotland were linked to trade with England, which is Scotland's biggest trading partner. They would be in danger if the SNP negotiated independence after winning a majority in the Scottish parliamentary elections on May 6.

Donald Dewar, the Labour leader in Scotland, backed up the attack in a speech to the Scottish Trades Union Congress in Glasgow, telling its annual conference that the SNP had nothing to offer workers engaged in UK Ministry of Defence contracts at Yarrow, the Glasgow shipyard, Marconi, the defence electronics specialist in Edinburgh, the Rosyth naval dockyard and the British army personnel office in Glasgow.

He said independence would create a black hole in Scotland's finances because revenue would fall short of expenditure and the deficit could only be filled by higher taxes.

Labour believes attacks on the SNP's policy of independence are a profitable tactic, but Mr Brown's speech was ridiculed as economic nonsense by the SNP. John Swinney, the deputy leader, said Mr Brown seemed to think it was impossible for one country to trade with another, even within the European single market.

The only jobs threatened by Scottish independence was Mr Brown's own job as a Scottish MP in London and his ambition to be prime minister, he said.

Mr Dewar also used his speech to reassure trade unionists about Labour's use of public-private partnerships in paying for big capital projects in Scotland. He said an agreement between the unions and the local health authority on protecting jobs under the private finance initiative at the Law and Haremyres hospital project could be a model for other agreements in PFI schemes. The PFI aims to attract private cash to public sector infrastructure projects.

Labour hopes it has averted a day of damaging criticism of the PFI in a debate at the STUC conference tomorrow, after Mr Brown persuaded the STUC over the weekend to dilute its opposition to PFI in a conciliatory resolution.

KOSOVO BLAIR'S PRESS CHIEF DISCUSSES STRATEGY IN BRUSSELS

Reinforcements sent to help Nato media war

By George Parker in London and Neil Buckley in Brussels

The prime minister's office yesterday despatched reinforcements to Nato headquarters in Brussels, to help the alliance improve its presentation of the war in Kosovo.

Alastair Campbell, Tony Blair's combative press secretary, spent the day discussing plans for an improved media strategy.

Julian Braithwaite, a press officer from Mr Blair's office who has foreign affairs expertise, has been assigned to Nato for the foreseeable future. Other government media experts could follow.

Mr Campbell denied the initiative was directly related to Nato's fumbled handling of the bombing of a refugee convoy in Kosovo last week. But he admitted that Nato's hard-pressed media team, which is designed for peacetime operations, needed strengthening.

Mr Campbell's arrival has not been greeted with universal enthusiasm by some of the 700 journalists camped out at Nato headquarters.

US journalists in particular have heard of his hard-nosed approach to news management in London and fear facts could be lost in a welter of "spin".

Nato spokesmen are thought to have been advised by Mr Campbell to arrive at each daily briefing with "a story", rather than simply delivering a factual account of events on the ground.

Britain seems to be at the forefront of the new offensive but media spokesmen from the US and other European Union countries are expected. Jamie Shea, the London-born chief Nato spokesman, has had to bear a huge burden during the conflict and is at his desk from early in the morning until late at night.

His accessibility to journalists and frank speaking has won him many admirers but Mr Campbell clearly believes he needs back-up.

Mr Campbell said he had been asked to take an overview of Nato's media strategy "to look at ways of trying to co-ordinate, given you are talking about all of us being engaged in the same thing in different countries and different languages in different time zones".

Mr Campbell said he believed Mr Shea was doing a "brilliant job" but needed support.

The UK government is said to have been particularly concerned at the perception of disunity which arose from different capitals giving different accounts of the same events.

Party leader needs to tread carefully over Thatcher legacy

William Hague will mark the ex-premier's first poll win, but Conservative acceptance of her ideas is no longer universal. **Robert Peston** reports

William Hague will tonight give a speech celebrating the 20th anniversary of Margaret Thatcher's epoch-shaping national election victory of 1979. But since the Conservative party leader is ditching one plank of Thatcherite ideology after another, it could turn out to be a truncated eulogy.

While Mr Hague is singing her praises Peter Lilley, his deputy, will be a short walk away at London's exclusive Carlton Club – the temple of grand Conservatism – discreetly putting the boot in.

He will attempt to distance the party from the notion that "free-market principles" are applicable to education, the state health service and other pillars of the welfare state.

His speech will reflect Mr Lilley's personality, appearing both radical and ultra-orthodox at the same time. On one reading it is a bold repudiation of everything Baroness Thatcher held dear. On another, it is a simple reaffirmation of what the party has consistently practised in government but has recently been chary of admitting.

Mr Lilley will be giving the Rab Butler lecture, in honour of the towering Conservative politician of the middle of the century who reconciled his party to the welfare state that Labour constructed.

The Conservative party's electoral successes from the 1950s until the advent of Lady Thatcher were built on its explicit acceptance that universal state education, the state health service and a comprehensive system of social security protection were valuable and irreversible achievements of the post-war Labour government. Indeed, a senior Conservative official said yesterday that spending on health and education had consistently risen faster under Conservative administrations than Labour.

But after Lady Thatcher's victory the rhetoric of the party moved away from the moral obligation of the strong to support the weak, or the healthy to help the sick, and towards an obsession with privatisation and the benign influence of markets.

Even Lady Thatcher baulked at wholesale privatisation of health or education. But there were more than enough gurus arguing publicly that the inevitable next phases would be the funding of health provision through private insurance and the allocation of education places through vouchers that could be cashed in state or private schools.

The impression was created, as Mr Lilley said yesterday, that the party "did not believe in the welfare state".

Mr Hague has found from his national consultation of party sympathisers – and countless opinion polls – that the vast majority of British people are profoundly attached to state-funded health and education.

This unpopularity might be a price worth paying if the Conservatives could produce an efficient scheme to remodel the welfare state on private-sector lines. But Mr Lilley, in charge of the party's policy review, has concluded that such ideas may look compelling in theory but do not work in practice. So Alan Duncan, the health spokesman and old friend of Mr Hague, has, for example, been told to ditch the idea of extending tax breaks to private insurance schemes.

But if market economics are no longer the panacea for the public sector, what will fill the void? The new Conservative mantra is the importance of handing power back to local authorities, school governing bodies and hospital trusts.

Or putting it another way, the Conservatives are now converts to decentralisation. It is perhaps a little unfortunate that the most ardent centralising premier of recent history was Lady Thatcher. Mr Hague will need all his wily powers of flattery when drafting tonight's encomium to her.

Change and continuity: 'The move to London will not make us do many things we were not going to do already. But it will add a focus and a timetable,' says Ogilvie Thompson David Ahmed

INTERVIEW JULIAN OGILVIE THOMPSON

Chief with a mission to explain

Gillian O'Connor finds the head of South Africa's Anglo American mining group is courting friends and goodwill as he prepares for its listing on the London stock exchange

Julian Ogilvie Thompson arches his hands, which are remarkably large, and wags a finger at the tape recorder. "Now look. We are in a transition phase. We will just have to explain it to the market."

The chairman of Anglo American, in London to prepare for the South African mining group's stock exchange listing, is trying to express why its management does not conform to the template of a FTSE 100 company.

There is a lot to explain. Anglo American, the flagship of the Oppenheimer empire, has holdings in De Beers, the diamond mining company, and Anglogold, South Africa's biggest gold company, among many others.

Next month Anglo will absorb Minorco, its offshore resources arm, as part of its switch of domicile and market listing to London.

The company was started by Ernest Oppenheimer, whose hero was Cecil Rhodes, the freebooting, autocratic empire builder. His son Harry, reputed to be the image of his father but with more finesse, remains a grandfatherly figure in the background. Nicky Oppenheimer, Harry's son, is now chairman of De Beers.

Mr Ogilvie Thompson, who is not tied to the family by blood or marriage, will continue to combine the roles of chairman and chief executive after Anglo moves to London. And the cross shareholdings between Anglo and De Beers will remain for the foreseeable future.

"We believe it is right that the person who has driven the transition should continue to drive the group for the first few years," he says.

"So the chairman and chief executive will be the same. But we intend to separate the functions no later than 2002. Then we will have to see who is the right person to be chief executive and who is the right person to be chairman with that chief executive."

It has often been said that Anglo is run like a family company. Will the new board, which includes some outside non-executive directors, mean changes in the decision-making process?

"It depends what you mean by 'run like a family company'," says Mr Ogilvie Thompson. "It has not been run in the interests of the family shareholders alone, but in the interests of all shareholders.

"Ernest took the decisions himself. Harry probably put them to the executive committee. Now it tends to be more of a collective decision but if the chairman pushes something, it tends to go through. We have never actually put anything to the vote in all the 42 years I have been here."

The fingers bridle at the thought of a vote. "The company has been run by people who tend to be friends or become friends. This is not necessarily a bad thing. We trust each other and help each other if we can.

"The world has changed and we are going to have to trim our sails to the wind a bit – be tougher, more ruthless, cut out the dead wood in every sense. But it is not a case of flipping from one system to another.

'We have never actually put anything to the vote in all the 42 years I have been here'

"The existing movement will be slightly accelerated by our London listing. It will not make us do many things we were not going to do already. But it will add a focus and a timetable."

Anglo will own about 30 per cent of De Beers; De Beers about 40 per cent of Anglo; and the Oppenheimer family almost 10 per cent of Anglo. The cross-holdings worry UK investors.

Mr Ogilvie Thompson takes what looks like an airline ticket out of an inner pocket, tears it into neat pieces and deposits it in the ashtray.

"I cannot see the Anglo and De Beers stakes ever being untangled. Diamonds is a good area for a broadly based mining company such as Anglo. And De Beers has always needed a counter-weight to its diamond side, to protect it when the cycle turns down."

Outsiders complain that the structure of the Oppenheimer empire is complex and opaque. Has this been choice or necessity? And is it going to change? "It is not that we like complexity. Some of it was imposed by politics: the rest grew out of how you finance things."

Mr Ogilvie Thompson then launches into a remarkably frank explanation of how the Oppenheimer empire used its web of companies to expand internationally at a time when South African companies were pariahs.

"Harry used to say that the most important thing about De Beers was the thing we did not tell our shareholders about – the Russian diamond sales contract. If it had been published, the Russians would have broken it.

"There was a bit of a problem once, so we put the contract through a third party, so that each of us could honestly say that we did not have a contract."

The new Anglo promises to be a model of transparency. But what is appropriate for Anglo is not necessarily appropriate for De Beers. "De Beers is a trading business, not a production business. Why should we tell the market what's in our diamond stockpile? Do analysts expect a bank to disclose its trading book?"

The fingers arch patiently. The man who persuaded the new government of South Africa to allow its largest business to emigrate is certain reasoned explanation will win over the London stock market.

INFORMATION TECHNOLOGY BRIEFS

'Watermark' keeps track of video use

A system that "watermarks" video electronically and tracks its use has been launched by New York-based Medialink Worldwide. The system can provide digital video monitoring and real-time broadcast tracking to the international broadcasting, programme syndication and advertising industries. TeleTrax uses technology developed by Lucent, of the US, to stamp video footage invisibly and indelibly with a unique identifying code when it is produced, transmitted, duplicated or broadcast.

Receivers monitoring broadcast signals detect the code and relay information over the internet to Medialink's computer centre.

Medialink sends the results, plus information identifying each station that has broadcast or transmitted any portion of the encoded video and the date, time and duration of use, to clients via the internet.

As part of the service, Medialink plans to build a monitoring network to ensure all TeleTrax-encoded broadcasts are detected.
www.medialink.com

Cheaper way to set up shop

Setting up an electronic shop on the web used to require the often expensive help of a specialist IT contractor or web design house. But a relatively cheap and easy alternative is available to small and medium-sized businesses in the latest version of Dexterity's Actinic Catalog packaged software. Actinic Catalog 3, which costs £349 plus VAT in the UK, runs on a standard PC with a modem and internet connection and requires a minimum 2Mb of hard disk space on the web host.

It provides a wide range of catalogue templates, supports online credit card processing systems including NetBanx, DataCash and WorldPay, and can be linked directly to an order-processing system.

Other features include the ability to calculate automatically delivery charges based on geography, weight and shipping method, "industrial-strength" encryption and the ability to run multiple catalogues from a single PC.
www.actinic.co.uk

The truth about using a web site

A true measure of customers' experiences using an e-commerce site is the promise of Candle, the Santa Monica-based network integration and management software specialist. Candle claims its eBA*ServiceMonitor and eBA*ServiceNetwork will help companies identify where their web sites are failing and losing existing or potential customers.

The software is designed to enable online businesses to measure service levels and user activity and help them adjust the design and structure of their web sites. Candle's software provides web managers with hard measurements of "round trip" response times.

Users can be tracked across geographies, access carriers and topologies.

Reports include browsing time, the path taken to navigate the site, and a breakdown of response time by client, network, server and individual parts (objects) on the page. A software starter-pack costs £1,247 in the UK.
www.candle.com

Paul Taylor

TIM JACKSON
ON THE WEB

Crest of web retailing

An online retailer offering digital versatile discs, is heading for a Nasdaq listing which provides a snapshot of web retailing

As any surfer knows, you go faster in the water by riding a wave than by swimming against one.

This principle is true in business, too – but companies are likely to have the chance to ride two waves at once. A case in point is DVD Express, an online retailer based in Hollywood that filed papers with the Securities and Exchange Commission last week to go public on Nasdaq.

DVD Express is poised to benefit from the fast increase in internet-enabled home PCs, and the growing willingness of consumers to buy over the web. But the other wave the company is riding is an entirely new product.

Digital versatile discs (DVDs) look like standard compact discs but have far greater storage capacity. This means one DVD can store, for instance, a 135-minute movie with digital sound, dialogue in eight languages, and subtitles in 32 further languages. With players costing $250 and better video quality, DVDs have a good chance of becoming the standard for distributing digital content.

Back in spring 1997, it required some vision to see this – for the new format had not been widely adopted, and few titles were available on DVD. But the good news was that no retailer had established a brand. So Michael Dubelko, a former Hollywood television executive, was entering a wide-open market when he launched a web site selling the new discs.

Two years later researchers say DVD video media sales will be $661m this year, $1.3bn next year and $2.9bn in 2001 – and installed DVD players will rise from 4.3m at the end of this year to 9m by the end of 2000.

Better still are the demographics: 47 per cent of DVD owners have online access, 58 per cent research purchases online, and 40 per cent of them shop online.

Visit *dvdexpress.com*, the company's web site, and you will find a store window modelled closely on *Amazon.com*. You can find titles by search or browsing.

Behind the site sits a technology platform built by Pandesic, an e-commerce joint venture between Intel and Germany's SAP, and an 8,000 sq ft warehouse in Hollywood. More than 40 per cent of sales go outside the US.

Like Amazon, DVD Express aims to be comprehensive in its coverage. But while there are millions of books in print, DVD Express's public filing indicates that there are still only around 2,600 DVD titles available – so the job is a little easier.

DVD Express is a little unusual for a web business. Mr Dubelko owns 84 per cent of the company's stock, with the rest owned by GeoCapital, a venture capital fund based in New York, and the normal range of stock options for employees, directors and marketing partners. A month or so from now, Mr Dubelko will probably be worth hundreds of millions of dollars – earned, perhaps, by his having funded the business, worked without salary for two years, guaranteed the company's $3m credit line at Wells Fargo, and put in $1.3m of his own money.

DVD Express's SEC registration statement, available at *www.sec.gov*, provides a snapshot of web retailing today. The company's sales grew from $800,000 in the last quarter of 1997 to $8m a year later. Gross margins fell from 17.6 per cent to 10.8 per cent, even though Mr Dubelko's history allows the company to make a quarter of its cash purchases from studios directly instead of at distributors.

And marketing is a high and growing expense. In 1998, the company spent more than $4m on marketing, of which $3m went to AOL. Evidence of the power of having more than 15m users can be seen in the text of DVD Express's deal with AOL, filed with the SEC, which shows the Virginia-based online service owning warrants over 7 per cent of the company in addition to the cash revenues from the deal.

So, there are clearly high risks attached to the high rewards. Prominent among them is the danger of being "amazoned" – of being forced to compete with the world's most powerful online retailing brand.

Another risk is the will-we-ever-make-money question: DVD Express expresses the hope that margins should rise as some of the new entrants give up selling at a loss and close, but it is hard to know how long that will take. One industry insider was quoted as saying that DVD retailers were buying a title for $18 which they sold for $10.

Finally comes the risk of technological change. Today, broadband internet access claims fewer than 1m residential users. But as it sweeps the US, more digital content will be delivered electronically. DVD Express will have to build a franchise to avoid being sunk by a coming wave of electronic download.

tim.jackson@pobox.com

هكذا من الأصل

هكذا من الأصل

High-tech insight into the brain

But the mystery behind the creation of a work of art remains, writes William Packer

Quite what the artist sees of the world, and how he renders his response and understanding into a work of art, are questions that have defied curiosity since art began. Which is not to say that our enquiries should not continue – and, if new technologies appear, then why not try them out? The only thing is not to expect an answer. A mystery shifted sideways, or turned upside-down, is still a mystery.

The artist looks, and thinks, decides and makes a mark. But is the mark achieved the one intended?

A small exhibition at the National Portrait Gallery, technical for the most part but augmented by a handful of relevant paintings and altogether thoroughly absorbing, now addresses just this subject. Some years ago, John Tchalenko, a film-maker and scientist, trained his camera on the painter, Humphrey Ocean, even as Ocean went through the lengthy process of painting a double-portrait of him and his cameraman.

In that mutual study lay the germ of this present exercise, in which Ocean has been filmed at length, wearing an eye-tracker – which registers the focus of every flicker of the eye – while working from the model. It is a tool much used nowadays in such things as the training of pilots and the ergonomics of complex control design, but no-one had thought of strapping it to an artist before. To follow, it was also thought a good idea to put him into an fMRI chamber – which is to say a functional Magnetic Resonance imaging device – and have the electrical activity of his brain recorded while he made some drawings. We already knew Ocean as one of the more sensitive and intelligent painters of his generation, but clinical confirmation can only be reassuring. And of course non-artists were subjected to the same experiment, to make comparison.

The analysis of all this data is as fascinating as it is inconclusive. The correlation of the movement and focus of the eye, as registered by the tracker, to the movement of the hand as caught on film, revealed a concentration of activity, even as the hand was hesitating or the eye checking and re-checking, that the non-artist could hardly begin to match. Indeed, from the fMRI material it appears that quite different parts

Wired up: Humphrey Ocean demonstrates the use of the eye-tracker as he works on a portrait

of the brain were engaged. It is indeed remarkable to have the working visual process demonstrated, as Tchalenko puts it, as "hundreds of eye-brain-hand-eye cycles, each lasting a few seconds", and mark the astonishing accuracy of attention, as both eye and hand turn unerringly from the model to the equivalent square-millimetre on the surface of the paper, and so back again. But we are left no nearer an answer to the greater question.

For an aptitude may be inherited, and a skill developed. Nature or nurture, or a bit of both: which is it to be? As Tchalenko wryly admits: "the more factual details I uncover about this process, the more mysterious the central act of creation appears." And Ocean himself hardly clarifies the issue: "At any given moment", he tells us in the exhibition pamphlet, "I will start with what I can see from where I am. I try to achieve a likeness. But what I want is a likeness to the reaction I have to something I can see." A pamphlet diagram gives us the cycle of "the eye captures/ the brain processes/ the hand implements/ the eye evaluates" and so round again, with a short-circuit or two across the circle.

This is dense stuff, but important nonetheless. For what we are asked to look at is the visual intelligence at work, and it is work of a very particular kind. We tend to recognise intelligence only by conventional academic criteria, founded upon established fact, moderated by reason. Which is all very well, as far as it goes, but it does then confound us when we confront great works of art, that we acknowledge to be the mark and triumph of our civilisation, yet unamenable to such rationalisation. What is there to say, in such a way, of the National Gallery's great portrait by Rembrandt of the aged, lately bereaved Margaretha de Geer (1661), that Ocean has included in this exhibition and is, in its richly clotted surface, one of the most profound studies of humanity ever made? We may mumble something of the artistic temperament and a natural gift, as though to put it all down to native luck. The intuitive, side-stepping yet critical intelligence is always unsettling.

My feeling is that it is by such objective engagement with the real and visible world that the artist seeks to make real his sense of being alive and sentient within it. And, perhaps, by getting close to getting it right, he then makes it available to us to make sense of in our turn, and in our way, by the light of our own experience. The artist looks, and thinks, decides and makes a mark. But is the mark achieved the one intended? And does the one intended, in the event, match the perceived reality? And what about the mark laid next to it, and the next and next? As the marks accrue, so does the unforeseen, by an impulse here, an accident there, an intuitive adjustment there, and all to be critically considered against the reality. So it goes on, round and round, as the pamphlet says. It will never be right, quite. There is no end to it, which is the greater mystery.

For the past 30 years or so, our art educators have largely abandoned the critical practice of objective and technical study in favour of uninhibited self-expression on the one hand, and the self-conscious pursuit of ideas on the other. For my part I cannot help but think that what was good for Rembrandt and Gwen John (another of Ocean's exemplars) still has its uses. The indifferent student thus acquired a critical apparatus and technical skill; the gifted student the freedom to work as he chose. By this small, intelligent display, almost by the way, Humphrey Ocean and John Tchalenko show all is not lost. The work goes on.

The Painter's Eye – Humphrey Ocean & John Tchalenko: The National Portrait Gallery, St Martin's Place, London WC2, until June 13; part of The Wellcome Trust SCI-ART Project.

MUSIC

Strauss tarts up Mozart

On Friday Richard Hickox and his City of London Sinfonia scored a triumph for the Strauss half-centenary by introducing us to something rare, largely unheard-of and altogether fascinating. It both was, and was not, Mozart's 1781 opera *Idomeneo, King of Crete*.

Strauss worshipped Mozart, and *Idomeneo* had been virtually forgotten in Austro-German opera houses – too stately, wordy and formal, too much of an antique *opera seria*. When somebody remembered that 1931 would be its 150th anniversary, Strauss undertook to modernise it, "to win back *Idomeneo* for the German stage".

Working with a new German text by the producer Lothar Wallerstein, Strauss eliminated all the recitatives in favour of succinct, symphonically composed passages, and discreetly re-touched some of the orchestration. Furthermore he reduced Electra, a dramatic but somehow non-functional role in the original Mozart, to a mere high priestess who doesn't want Idomeneo's son to "taint the purity of Greek blood" by wedding the Trojan princess Ilia.

Even in 1931, it was bold to make this unsympathetic creature an exponent of quasi-Nazi racism! Strauss also cut Arbace's bass arias, which is standard practice now, and Idomeneo's "Torna la pace" too. Beyond that again, he re-ordered much of the action, composing new music for the new joins, partly on Mozart's themes.

Finally – and this is why the Strauss-Mozart *Idomeneo* could never be a substitute for the real thing – he inserted shamelessly personal bits of his own. A disconcerting quote (way out of line) from his *Aegyptische Helena*; a churning late-Romantic interlude for Act 2; and spectacularly, just before Mozart's reverent final chorus in Act 3, an *echt*-Strauss ensemble that soars to ecstatic *Rosenkavalier* heights before it sinks to a glowing *Capriccio* close.

Hickox let us hear that all this re-working and re-writing stemmed from deep affection for Mozart. Who cares whether it was "misguided", or "anachronistic"? Since there is no chance of its supplanting the original, we can appreciate the result as an overweening tribute from a master hand.

Thanks to an excellent cast, led by Alison Hagley's searchingly subtle Ilia and Kurt Streit's sombre, troubled Idomeneo, with Pamela Helen Stephen's upstanding mezzo Idamante, Christine Brewer's urgent priestess, Matthew Brook's various bass roles and the London Symphony Chorus, while the hybrid score lasted it almost persuaded. No Straussian and/or Mozartean who was there could have failed to be stirred and amazed, and often amused.

For the sake of those who weren't, Hickox and the *CLS must* commit their vital performance to CDs. An "important" rediscovery? – well, not really; but intriguing, thought-provoking . . . most certainly, yes.

David Murray

Sponsored by HSBC Holdings plc, with support from The John Ellerman Foundation.

THEATRE IN PARIS RICHARD III

Boiled down to blood and guts

Revamping the classics, or "relecture" as it is politely known, has been the main concern of many French theatre directors for close on 30 years, now: Patrice Chéreau drew international attention to the trend with his highly acclaimed centenary treatment of Wagner's *Ring* Cycle at Bayreuth in 1976. Shakespeare's *Richard III* is the latest to be put through the mill of "relecture" with highly unorthodox and very happy results. Under a marquee in the Parc de la Villette, director Geneviève de Kermabon has forged a sometimes overstated and terrifying universe out of Shakespeare's darkest history play. It is partly mime, partly puppet show, and mostly declamatory theatre using minimal props, in the purest Renaissance tradition.

The set is a half-moon wall of wooden planks, in which numerous doors provide for lots of clever exits and entrances. The costumes mix ancient and modern, and gender is constantly interchangeable: the Duchess of York is played, in a period dress, by a man, Joe Sheridan, who also takes the role of her son Edward, wearing schoolboy's uniform. The Bishop of Ely is an actor rigged up like a rag doll, and various minor masculine roles, such as Clarence's jailer, become even more sinister played by women. The biggest single shock of all, however, is legless actor Hervé Paillet as Richard. "Rudely stamp'd" indeed, he is either carried by another actor or moves around stage on his arms. Paillet was a replacement for a colleague, suffering from brittle bone disease, who died suddenly during rehearsals.

A confusingly densely populated play by any standards, *Richard III* can be pretty baffling in this version too, even with the help of an additional introductory monologue by the dead Henry VI, all gore and protruding daggers. Paillet's disability, meanwhile, is so major as to be continuously disturbing. Strong on the role's dramatic aspects,

The Duchess of York is played, in period dress, by a man; but the biggest single shock of all is the legless actor Hervé Paillet as Richard

his delivery all too often sacrifices the poetry, which is good even in French, while turning all of Richard's curdlingly clever sarcasms into angry diatribe. So much inventiveness and so much violence (Clarence is drowned in the "malmsey butt" on stage and not off, as Shakespeare directed) are wildly entertaining even if the play itself, bereft of its tenderness and poetry, does end up resembling a blood-and-guts tragedy by some minor Elizabethan playwright.

Richard III is also centre stage at the Théâtre de la Bastille in *Imprécation 36*. Written and directed by Michel Deutsch, it is not so much a play as a tongue-in-cheek mish-mash of sketches, performed on a bare stage and very loosely built around Shakespeare's Richard and a similarly psychopathic, unnamed modern-day crook. André Wilms slips from an impressive Comédie Française delivery of Richard, complete with heavily accentuated humpback and limp, into something altogether more supple, contemporary and full of expletives, as the ill-defined crook.

He is accompanied by young actresses Judith Henry and Marie Payen in a multitude of roles Renaissance and modern; bad guys, Deutsch seems to be saying, are bad guys, whether murdering their way to the throne or peddling heroin. It may not be a profound point, but it does make for good entertainment. Accompanied by a four-man rock band, Wilms first of all raps his way through the cast list before launching into a diatribe against the insipidity of modern life, too many TV chat shows, too much obsession with hygiene, and then acts the *Richard III* confrontation between Richard and Lady Anne: "Foul devil, for God's sake, hence and trouble us not."

It all ends finally with a shouting match between Princess Diana and Camilla Parker-Bowles, to the accompaniment of a shower of rain and Elton John's "Candle in the Wind". Far more than merely pretentious, it is hilariously funny.

Nicholas Powell

'Richard III' runs until April 25

Unorthodox: Hervé Paillet (being held, centre) as Richard III in de Kermabon's Paris production David Sauveur

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INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Otello: by Verdi. Conducted by Carlo Rizzi in a staging by Klaus Michael Grüber; with a cast led by Vladimir Bogachov; Apr 22, 25

BERLIN

DANCE
Deutsche Oper
Tel: 49-30-34384-01
Tokyo Ballet: in a Maurice Béjart programme comprising Stravinsky's Le Sacre de Printemps and Petruschka, and Ravel's Bolero; Apr 20, 21

COPENHAGEN

EXHIBITION
Louisiana Museum of Modern Art, Humlebaek
Tel: 45-4919 0719
www.louisiana.dk
The Asian City of the 90s: display focusing on the processes of cultural, political and economic development in Asia, and on the dialogue between East and West; to Apr 21

FLORENCE

OPERA
Teatro Comunale
Tel: 39-055-211158
www.maggiofiorentino.com
The Queen of Spades: by Tchaikovsky. Conducted by Semyon Bychkov in a staging by Lev Dodin, in a co-production with Netherlands Opera and Opéra National de Paris; Apr 21, 24

FORT WORTH

EXHIBITION
Kimbell Art Museum
Tel: 1-817-3328451
www.kimbellart.org
Gifts of the Nile: Ancient Egyptian Faience. Display of ceramics, known as faience, a mixture worked by the Egyptians and regarded by them as magical; to Apr 25

HAGERSTOWN

EXHIBITION
Washington County Museum of Fine Arts
Tel: 1-301-739 5727
www.washcomuseum.org
Charles Walther: works of the Maryland Modernist are displayed here; to Jun 13

HOUSTON

OPERA
Houston Grand Opera, Wortham Center
Tel: 1-713-227 2787
www.hgo.com
Resurrection: world premiere of Tod Machover's new opera set in Tsarist Russia, with a libretto by Laura Harrington. Patrick Summers conducts a staging by Braham Murray, with designs by Simon Higlett; Apr 23, 25

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
City of London Sinfonia: conducted by Richard Hickox in works by Strauss, Haydn and Beethoven, with soprano Christine Brewer; Apr 21
Royal Festival Hall
Tel: 44-171-960 4242
London Philharmonic Orchestra: continuing the International Series Daniel Harding conducts in works by Brahms, Mozart, and Strauss; Apr 20

EXHIBITION
National Gallery
Tel: 44-171-839 3321
Portraits by Ingres: Images of an Epoch. 40 paintings and 50 drawings by the 19th century French painter. Includes major loans from museums in France, the US and elsewhere; then touring to the US; to Apr 25

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
Salome: David Atherton conducts Richard Strauss' opera, starring Vivian Tierney as Salome in David Leveaux's production; Apr 20
Sadler's Wells
Tel: 44-171-863 8000
The Royal Opera: Paul Bunyan, by Benjamin Britten. Staging by Francesca Zambello, conducted by Richard Hickox (replaced by Chris Willis on Apr 27); Apr 23, 24

LOS ANGELES

CONCERT
Music Center: Dorothy Chandler Pavilion
Tel: 1-213-365 3500
www.laphil.org
Los Angeles Philharmonic: conducted by Alan Gilbert in works by Bernstein, Ruggles, John Williams, and Copland; featuring David Breidenthal on bassoon; Apr 22, 24, 25

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● European Brass Band Championships: Apr 24
● Munich Philharmonic Orchestra: conducted by Manfred Honeck in works by Wolf and Tchaikovsky; Apr 21, 22, 23
● Pinchas Zukerman: recital by theviolinist of works by Mozart, Takemitsu, Schumann and Brahms, with piano soloist Marc Neikrug; Apr 20

NAGOYA

EXHIBITION
Nagoya/Boston Museum of Fine Arts
www.nagoya-boston.or.jp
Art of the Ancient Mediterranean World: inaugural long-term display of more than 220 objects, ranging from prehistoric Egyptian earthenware to a fresco from Pompei; to Jul 15

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
● New York Philharmonic: conducted by Colin Davis in works by Mozart, with piano soloist Imogen Cooper; Apr 20
● New York Philharmonic: conducted by Colin Davis in the world premiere of James MacMillan's The World's Ransoming, with English horn soloist Thomas Stacy. The programme is completed by Bruckner's Symphony No. 9; Apr 22, 23, 24
Kaufman Concert Hall
Tel: 1-212-996 1100
Recital: Violinist Raimundas Katilius and pianist Golda Vainberg-Tatz present the works of Grieg, Balsys, Debussy, and Mendelssohn, along with a world premiere by Polish-Israeli composer Jan Radzynski; Apr 24

EXHIBITION
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
18th Century French Drawings in New York Collections: highlights of a century of collecting, featuring 100 outstanding examples by 59 artists including Watteau, Boucher and Fragonard; to Apr 25

OPERA
New York City Opera, New York State Theater
Tel: 1-212-870 5570
www.nycopera.com
Intermezzo: by R. Strauss. New staging by Leon Major, with sets by Andrew Jackness and costumes by Martha Mann. Conducted by George Manahan; Apr 21, 24

PARIS

EXHIBITION
Musée du Louvre
Tel: 33-1-4020 5151
www.louvre.fr
Le Pyramide du Louvre à 10 Ans: programme of lectures, walks, concerts and films, celebrating the pyramid's 10th anniversary; to Apr 21

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
Lohengrin: by Wagner. Conducted by Mark Elder in a staging by Robert Carsen, with designs by Paul Steinberg; Apr 22, 25

TOKYO

OPERA
New National Theatre
Tel: 81-3-5352 9999
Die Fledermaus: by J. Strauss. This production is conducted by Yukio Kitahara in a staging by Kyoko Fujishiro, directed by Hironori Terasaki; Apr 22, 23, 24, 25

ZURICH

EXHIBITION
Kunsthalle
Kandinsky, Chagall, Malevich and the Russian Avant-Garde: show tracing the art movements between the Russian revolutions of 1905 and 1918, and focusing on attempts by artists to fuse aspects of folk culture with Western modernism. Many of the 100 works on display are on loan from Russian museums; to Apr 25

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

PETER MARTIN

On a life support

Outdated ideals and misplaced beliefs in the role of companies are keeping too many big businesses going

Why don't more big companies die? After all, if end-of-the-millennium capitalism is as competitive as we're told, surely we should be surrounded by corporate corpses?

Although small companies perish by the thousand, big companies rarely die completely. Instead, they are taken over. Such transactions do, from time to time, result in the extinction of the acquired company. But more often, as the vogue for purported "mergers of equals" indicates, much of the old company survives. Culture, staff, management, brands, business model, internal processes – all linger on for decades, fighting a rearguard action against the acquirer.

Does this make sense? No, argues Andrew Campbell of the Ashridge Strategic Management Centre. Companies should simply be allowed to die when their time is up, he says. Their assets – including brands – can be sold. If they have value, they will survive in *more suitable hands. But the* companies themselves should disappear.

We instinctively find this approach difficult to accept. Although hostile takeovers are commonplace, the raider who seeks to dismember a company is still vilified, even in the US. Governments no longer subsidise failing companies, but they do everything short of that to keep big businesses alive, especially in manufacturing.

One school of thought is that this is as it should be – a company is more than the sum of its economic activities. It is a living institution, like a religious order. Since this view is widely held, companies are upheld by the strong instinct to preserve life.

But consider for a moment the alternative view. Think of a company as merely a way to achieve economic purposes, a bundle of contracts, relationships, and assets. These have value by *themselves, for the company* to survive it must add something else if it does not, surely it should die, allowing the assets to be used elsewhere?

Incumbent managers should, in other words, recognise when their stewardship of their companies' assets and relationships no longer serves an economic purpose. They make this judgment about peripheral activities: the act of divestment is an explicit acknowledgement that a subsidiary is more valuable in other hands. It is perhaps time for them to apply this to their own stewardship of the core business.

Acquiring managers would have to change the way they operated. They would be free to display more ruthlessness in the early months of the takeover, instead of mouthing platitudes about drawing on the best of two traditions. But they would soon face a harsh test for their stewardship of the newly acquired assets: can *they use them more* effectively? If not, it would be time for the assets to change hands again.

Even though this approach is not widely shared today, cash takeovers help push managers and investors to think in this way. The recent trend towards all-share mergers lets them off the hook, by leaving a tempting zone of ambiguity. A year or so down the road, it is harder to judge how much an all-paper acquirer paid, and how effectively it is using its new assets. A willingness to tolerate the idea of corporate extinction would sharpen the debate on such deals.

Take, for example, the three-way wrangle over Telecom Italia's fate. Clearly, whatever happens in the market for corporate control, Italians must continue to receive a phone service. That test is likely to be satisfied by any of the proposed outcomes: continued independence for the company; a takeover by Olivetti; or a merger with Deutsche Telekom. So how should the battle be decided?

All three protagonists present themselves as stewards of Telecom Italia's legacy. Olivetti's Roberto Colaninno seeks to manage it better; so does Franco Bernabe, the company's boss. The Deutsche Telekom merger is proposed as a means of allowing both companies to survive the era of European telecommunications deregulation, with their heritage of mass coverage, universal service and national pride intact.

If you set aside the natural yearning for corporate immortality, all three proposals have drawbacks. Both Mr Bernabe and Mr Colaninno are asking shareholders to take their managerial determination on trust. The Deutsche Telekom merger would – we are told – involve some industrial reorganisation. But no matter how sweeping, this is probably not the best possible use of the two companies' assets, since the various elements of the two companies' portfolios could individually find better partners.

Since no one disputes that Telecom Italia has been wastefully managed in the past, this three-way choice seems unnecessarily limited. *Perhaps a full-scale auction* of Telecom Italia's assets would serve shareholders and customers better. Even employees, who have the most to lose if existing relationships are threatened, might ultimately do better from working in a more effective structure. Such an auction would break the business down into its components – property, infrastructure, long distance carriage, "local loop", customer service, and so on – then sell them separately.

The outcome would, indeed, be corporate euthanasia. As the Victorian poet Arthur Hugh Clough put it: "Thou shalt not kill: but need'st not strive/ Officiously to keep alive."

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LETTERS TO THE EDITOR

An Irishman is best for trade post

From Sir Roy Denman.

Sir, With an imminent changing of the guard at the European Commission, William Wallace's plea for a more effective European approach to the US is timely ("Meeting of minds", April 15).

The new president faces three challenges.

Europe has spoken with a single voice on trade issues for the past 40 years: this has enabled it to make a significant contribution to the liberalisation of world trade. But there is no single European voice in services and environmental and social policies – areas of growing importance. The US and the European Union are about to embark on a new "millennium round" of trade negotiations and it is high time the EU's Commission was the EU's representative on these issues as it is for trade.

Representation of the euro on the world stage is also a mess. The vanity of finance ministers is legendary. But the longer the Euro 11 take to agree to be represented simply by the equivalent of a Treasury secretary and the president of the European Central Bank, the longer it will take for Europe to be taken seriously.

What sort of person will Romano Prodi designate as the Commissioner dealing with external trade? Will he or she be a failed politician, or someone who knows the US, is as tough as old boots, but can charm birds off trees whether in Houston, Atlanta or Capitol Hill? Writing as a European with a British passport, with some experience in this field, I would say the best bet here could be an Irishman. And many in Brussels would agree that Peter Sutherland would be the best possible choice.

The answers to these questions will test not only the ability of Mr Prodi but the promised goodwill of the European heads of government.

Roy Denman,
194B Avenue de Tervueren,
1150 Brussels, Belgium

The truth as recognised by BBC journalists

From Z. Jakopovic.

Sir, It is incredible how BBC World studio journalists react when interviewees criticise Nato over the bombing of Yugoslavia. They seem shocked, never let their guests finish and keep repeating unsubstantiated Nato spokesmen's claims of Serbian atrocities. However, if they hear "Serb bashing" they are more than willing to give such commentators all the time in the day, without much cross-questioning.

Does the only truth you recognise come from "reliable Nato sources", ie the Kosovo Liberation Army and Nato, which have proved to be very dubious? Or are you just afraid that the British people cannot handle a complicated situation in which the Serbs are not the villains? I do not have to remind you that many Nato claims have had to be retracted quickly, but I am still waiting for a significant Yugoslav government lie. Unlike people in the UK, I have the opportunity to watch BBC, CNN and Sky News as well as Yugoslav TV, and I cannot believe how low western media have stooped.

Z. Jakopovic,
Belgrade, Yugoslavia

'Happiness' is a sad tale of oddballs' desperation

From Mr Samuel Walden.

Sir, "If there are any better films in the next millennium we will all want to stay alive and see it out." This was Nigel Andrews' verdict in his review of *Happiness* (April 15). Such ballyhoo is clearly intended to leave readers with a "must-see" endorsement.

Regrettably, having followed this advice and seen the film, I feel that it should not have been commended without a prominent caveat. It does far more than broach "nearly every taboo sexual topic in the book". While well made, it is deeply disturbing, particularly in its portrayal of paedophilia. We are told that "there has never been a better film about desperation". Yet it is principally a film about the desperation of adult sexual oddballs rather than about desperation per se.

In his introduction, your reviewer attempts to universalise the film's subject matter by claiming that "it tells us what we already knew but scarcely liked to say, even to ourselves. That a well-adjusted human being is a contradiction in terms." The implication here is that the characters are in some broad sense representative of society. However, not one of the adult protagonists in the various strands of this film can be viewed as "well-adjusted".

If film-makers are to set their sights on your reviewer's praise, then we should, rather than wait to see the next millennium out, consider death's certainty as merciful relief.

Samuel Walden,
26 Belsize Avenue,
London NW3 4AU, UK

Unacceptable to Virgin

From Mr Richard Branson.

Sir, I refer to your Lex comment about Virgin Atlantic on April 19.

Lex says, presumably based on the inaccurate story appearing in the edition of April 17, that Continental Airlines was seeking to buy a 40 per cent stake in Virgin Atlantic for only £348m. Our discussions with Continental centred on it taking a minority stake at a price that would put a value on the company considerably in excess even of the £1.2bn you speculate as the "starry-eyed" float valuation. Lex then goes on to cast aspersions on my company's accounting methods by its reference to "opaque finances".

You arbitrarily question our effective tax rate of 20 per cent as "unsustainable in a public company. We benefit from significant capital allowances – a standard feature of a capital-intensive industry, as any financial journalist should know.

One has to question the quality of the financial acumen behind this story showing such a lack of basic financial understanding as to put forward assertions as fact such as "a standard 25 per cent flotation discount" (what "standard" is that? – the market norm is around 10 per cent) and that a company floating in "autumn" 1999 (per the FT article of April 17) would have an initial public offering valuation based on April 1998 figures. I could go on.

Lex is perfectly entitled to its own opinions. But inaccuracies such as these are extremely basic and extremely damaging to my company and are unacceptable.

Richard Branson,
chairman,
Virgin Atlantic,
Crawley Business Quarter,
Manor Royal, Crawley,
West Sussex, UK

Number One Southwark Bridge, London SE1 9HL

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PERSONAL VIEW SADAKO OGATA

Returning the refugees

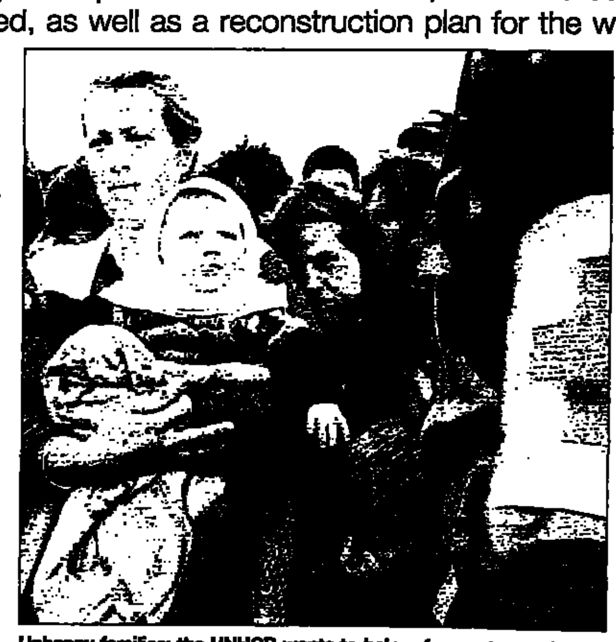
The UNHCR is ready to help Kosovars return home, but to do so peacekeeping troops are needed, as well as a reconstruction plan for the whole region

The refugee exodus from Kosovo constitutes one of the most deplorable episodes in modern European history. Driven from their homes, stripped of their possessions and deprived of their identity documents, the Kosovars are the victims of a shameful and systematic campaign of persecution and abuse. Using the most brutal methods imaginable to erase a population from the map, the Yugoslav authorities have acted in a way that is morally repugnant and in direct violation of international law.

The international response to this refugee crisis has suffered from some evident shortcomings. The speed and scale of the exodus took everyone – including the Office of the United Nations High Commissioner for Refugees – by surprise. As a result, the relief effort was slow to get off the ground and placed undue strain on the countries directly affected by the influx. The hastily arranged effort to evacuate some of the refugees from the Balkans has in some cases led to the separation of families.

With the refugee exodus continuing and no resolution to the Kosovo crisis in sight, this humanitarian catastrophe will not be resolved quickly. But a number of practical steps can and must be taken to limit the suffering of the Kosovar people and to bring a degree of stability to the region.

First, it is essential that the refugees be provided with effective protection in the countries to which they have fled. It is reassuring to note that so many refugees from Kosovo have been admitted to neighbouring states. But some deeply disturbing incidents have also taken place. Borders have been closed, leaving large numbers of refugees to fend for themselves in difficult and dangerous locations. New arrivals have been involuntarily moved from one location to another, forcing them to abandon their few possessions. And the conflict has started to spread beyond the borders of Kosovo, adding to the insecurity of refugees who are camped in border areas.



Unhappy families: the UNHCR wants to help refugees to reunite

If such occurrences are to be averted, a scrupulous respect for the principles of international refugee law is required. Displaced Kosovars must be allowed to leave their homeland and to seek safety in neighbouring states. No refugee should be forced back to Kosovo, or moved without being properly consulted. To reinforce the security of the refugees, the refugee camps should be established at a suitable distance from the border with Kosovo and must retain a strictly humanitarian character. There should be no armed presence in or near the camps.

Achieving this will require a properly co-ordinated refugee relief operation. For unless they receive adequate international support, asylum countries such as Albania and the Former Yugoslav Republic of Macedonian (FYROM) will become vulnerable to increased social and political tension.

The refugee operation has gained real momentum. Many governments and members of the public have pledged their support. Generous contributions are being made and the practical arrangements needed to provide the refugees with basic needs put into place.

A third and pressing objective must be to reunite family members who have lost contact with each other. There is some disturbing evidence to suggest that adult males have been separated from their wives and children by the Yugoslav security services.

Many other families have been split up in the process of being expelled from Kosovo, while the hasty and involuntary relocation of some refugee groups has frequently caused the sick and elderly to be left behind. UNHCR's efforts to register the refugee population will help many of these families to be reunited.

The fourth significant challenge is to be found within Kosovo itself. In the absence of any international presence in Kosovo, it is impossible to know with any degree of accuracy the numbers of those displaced or their suffering. But it is clear from refugee testimonies that thousands of people are hiding in the hills and forests of Kosovo, living in constant fear of the Yugoslav military.

UNHCR stands ready to move back into Kosovo, to assist all those in need and to help those refugees and displaced people who wish to go back to their homes. But that can only happen under certain specific conditions: the withdrawal of the armed forces and security services responsible for the persecution and expulsion of the Kosovars; the deployment of an international military force; and the establishment of an international monitoring mechanism. Such arrangements must also guarantee the safety of Kosovo's Serb population and protect their right to live in Kosovo, whatever its future status.

Fifth, planning must be accelerated for a long-term solution to the Kosovo crisis. It is clear that the only solution for the vast majority of refugees – and for the many thousands displaced in Kosovo itself – will be voluntary repatriation. Any other approach would serve to endorse the ethnic cleansing that has already taken place.

Thought must also be given to the enormous task of reconstruction and reconciliation. A political settlement to the crisis in Kosovo is required. A settlement must also give full support to the International Criminal Tribunal for the Former Yugoslavia in its work of bringing to justice those guilty of crimes against humanity. Without such justice there can be no meaningful peace in Kosovo.

Finally, the regional dimension must not be neglected – perhaps one of the most important weaknesses of the Dayton Accords. The crisis has highlighted the vulnerability of neighbouring countries such as FYROM and Albania, which in many ways are poorer than Kosovo itself. These countries require economic assistance. But they also need help to build the national institutions and civil society that can provide a basis for future stability and economic growth. Montenegro, and a democratic Serbia, might also eventually be brought into a regional plan for reconstruction – a plan that will need the vision that has been so lacking in previous attempts to end the conflict in the Balkans.

The author is United Nations High Commissioner for Refugees

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COMMENT & ANALYSIS

FINANCIAL TIMES

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Tuesday April 20 1999

The fall of a high-tech hero

The fall of Eckhard Pfeiffer, who has resigned as chief executive of Compaq Computer, shows American capitalism at its most cold-eyed, bruising and unsentimental. And it is a healthy sight.

Until Sunday, Mr Pfeiffer was one of the most prominent businessmen in the US, widely admired for his turnround of Compaq. Catapulted into the top job in 1991, when the company announced its first quarterly loss, he presided over its growth from a business with $3bn (£1.8bn) of annual sales to some $40bn, and its expansion into a full line computer company.

The proximate cause of his resignation was a profits warning last week that surprised Wall Street analysts, already on poor terms with the company. In a cutting edge, high technology industry, where share price valuations are extremely volatile, companies ignore good communications with the broking community at their peril.

But behind the profits warning – which the company claimed reflected industry-wide trends – appear more deep-seated problems of strategy and execution specific to Compaq.

One of the most serious is its difficulty in changing its personal computer business model to cope with the direct selling methods pioneered by Dell Computer, which are more suitable for a commodity product. By eliminating a layer of middleman dealers, and building to order, Dell has achieved far greater flexibility in pricing and inventory control. Compaq has fumbled its attempts to move in this direction.

The company, which has jumped in size over the past two years through the acquisition of Tandem Computers and Digital Equipment, may also have been slow to get a grip on these new businesses, particularly Digital.

All this suggests that while Mr Pfeiffer was an excellent manager of the company's growth in the mid-1990s, he may not have the ideal skills to oversee the much more complex period of evolution with which it is now grappling.

Matching executives' strengths to a company's growth is hardly a problem unique to Compaq. Any fast-growing business can face a potential mismatch. But many companies are not prepared to act toughly. The temptation is to avoid embarrassing confrontations with corporate heroes, in the hope matters will right themselves. In many sectors, companies can still live off past laurels for a considerable period of drift and decline.

Not so in an industry as fast-moving and open to new entrants as US PCs. The results may seem brutal. But US executive pay levels should more than compensate for an uncertain life at the top, and a willingness to embrace ruthless change is one of the strengths of American industry's competitive creativity.

Turkey's poll

The outcome of Turkey's general election yesterday should give a salutary shock to the outside world, not least to the European Union. Instead of producing a strong showing by the Islamist party, which was widely expected to top the poll, it has resulted in big gains for two nationalist parties, on the left and far-right.

There is both good and bad news. It is reassuring that the apparently inexorable rise of the Islamists, represented by the Virtue Party, has gone into reverse. They have been shown to be a political party like any other. They still won support at local levels, where their running of cities like Istanbul has been seen as fair and effective. But at the national level they lost ground.

The disturbing news was the leap in support for the far-right Nationalist Action party (MHP), which more than doubled its vote to become the second-largest group in the new parliament. The party claims to have shed its most extremist and violent elements, but it has yet to prove its more moderate credentials. It remains fiercely nationalist on questions of Kurdish autonomy – it denies the existence of a Kurdish problem – and on the defence of Turkish Cyprus.

The main victor, however, was the Democratic Left Party of Bülent Ecevit, the outgoing prime minister, who topped the poll. He has strong nationalist credentials, as the premier who ordered the Turkish invasion of Cyprus in 1974. He also benefited from being seen as an honest broker in previous governments, attempting to provide stability and continuity.

The EU is at least partly responsible for the popularity of both parties. One factor has been the upsurge in nationalist sentiment over the pursuit and capture of Abdullah Ocalan, the Kurdish guerrilla leader, in January. EU states, led by Italy and Germany, were blamed for refusing to extradite him. That reinforced a backlash against the EU which started when Turkey was snubbed in its application for membership in 1997.

The final shape of the new Turkish government may take time to emerge. But the election underlines how essential it is for the EU to pursue a coherent policy towards Ankara. Turkey is a vital strategic partner for Europe, in the Middle East, the Balkans, and in central Asia. Yet the member states have treated it as a second-class neighbour and allowed the relationship to be blocked by the veto of Greece.

It is in the vital interests of both Turkey and the EU to put these relations back on a proper footing. The new government in Ankara must not relapse into furious isolationism. And the EU must show greater understanding of Turkey's national pride.

Controlling risk

It was Sir Adrian Cadbury who said – nearly a decade ago – that all financial failures were in essence a failure of internal risk control. Today, at long last, the report of the Turnbull Commission lays out – albeit in draft form – how listed UK companies should report on the risks they face. Turnbull could have ducked the issues. Instead its proposals – which in their final form should have the backing of the Stock Exchange – have some real bite. And they avoid unnecessary red tape.

In the US, exhaustive public disclosure was recommended by the Treadway Commission in 1992. The reality is that this rarely give an insight into the risks that actually threaten a business. The problem is that discussing real risks – like obsolete products or unethical suppliers – can damage the share price and give competitors a field day. The alternative – a couple of lines of bland prose in the annual report – is almost as bad. Investors may draw comfort from such pieties but it is usually misplaced.

Turnbull has avoided both pitfalls. Companies, in a brief disclosure, have to say that they have an ongoing risk analysis programme which is regularly reviewed. Furthermore this risk analysis should embrace all threats – not just the narrow financial ones. This innovation, signalled by the otherwise cautious Hampel Committee, reflects the myriad risks faced by the modern company. No company can be a going concern unless such threats have been fully analysed. And the Turnbull has a sting in the tail. Companies must own up if the internal control system has failed and say what they have done to put things right.

Directors and auditors should embrace the new guidance. It gives them the flexibility to make sure proper risk control is embedded in the corporate culture – not just bolted on for the annual report. Non-executive directors, in particular, will be expected to make sure that the external disclosures match the internal reality. The audit committee may have to take on a bigger role – although the responsibility is the full board's alone.

Properly implemented, Turnbull brings to an end a revolutionary phase in the history of corporate governance in Britain. It is the last piece of the jigsaw which brings together the recommendations of Sir Adrian Cadbury, Sir Richard Greenbury and Sir Ronnie Hampel into a single, so-called, supercode. A system based on principles rather than checklists, and on meaningful disclosure rather than prescriptive data, will now be on trial. Businesses prosper by taking risks. Now they have the means to assure all stakeholders that they are the right ones.

Back in from the cold

Philip Coggan and **Richard Waters** on why investors are looking again at unfashionable industrial shares

The bull market may still be charging ahead, but it has changed direction. For the past five years, investors have ploughed cash into industries such as technology and pharmaceuticals that seemed to promise unlimited growth. But now they have had a change of heart.

The ratings of classic growth stocks have started crumbling on Wall Street, and long-neglected cyclicals – manufacturing and processing companies – are once more coming to the fore. The Dow Jones Industrial Average rose sharply yesterday in early trading, while the technology-dominated Nasdaq lagged behind.

Nor is this phenomenon confined to the US. In the UK and Europe, industrial stocks have returned to favour in recent weeks and even long-depressed commodity shares have started rebounding in Latin America.

This shift in sentiment could alter the entire climate for stock market investment. Value investors, those who look for shares that are temporarily undervalued, have performed poorly in recent years. Success has gone to the momentum investors, those who have bought stocks that have risen sharply on the grounds they will go even higher. But the value school may finally be staging a recovery.

The neglected smaller company sector may also be edging back into the limelight. In the UK, the FTSE 250 and SmallCap indices, which are both heavily weighted towards industrial stocks, have each risen by 19 per cent this year and have outperformed the blue-chip benchmark by more than 9 per cent. In the US, the Russell 2000 index of small companies has done less well since January, but is up 25 per cent from its depressed level of early last autumn.

But the return of cyclicals also may have a sting in the tail. One group that has taken part in the rebound has been the commodity stocks, thanks to a rebound in the crude oil price, and some analysts are talking about a pick-up in metal prices.

The low inflation era of the late 1990s has been in part due to low commodity prices. If they are rebounding and global economies start to grow rapidly, then eventually central banks may be forced to reverse their recent rate cuts. And that could spell the end for the long bull market.

The pick-up in cyclicals is largely caused by two factors: a turnaround in the prospects for world economic growth; and a belief that such shares have become undervalued.

Investors are more confident about the outlook for the world economy than they were in the dark days of autumn 1998, when many were talking about a global recession in 1999.

"We've had several occasions over the last few years when it looked as though things were turning around for the global economy," says Stephen Slifer, an economist at Lehman Brothers in New York. "The question now is, is this finally it? Have we passed the low point?"

While huge problems remain in the Asian financial sector, the worst could be over for the region's economies. The competitive boost from 1997's devaluations and the effect of recession on demand for imports has vastly improved their current account positions, and economic forecasts are being revised upwards.

The US has shrugged off all the fears of a credit crunch that prompted the Federal Reserve to cut interest rates three times in the fourth quarter of 1998. Gross domestic product growth turned out to be an annualised 6.1 per cent in that period and there scarcely seems to have been much slackening this year.

In continental Europe, where there has been a decline in output in Germany and sluggish growth in France and Italy, the recent half percentage point cut in interest rates by the European Central Bank has sparked hopes of a return to more solid growth. And in the UK, talk of a recession is fast fading: when figures are released on Friday, it seems likely they will show that the economy avoided a fall in output in the first quarter.

All this helps the cyclical stocks that tend to benefit proportionately more from an improvement in the economy. As a group, they tend to be highly operationally geared; a small rise in revenue growth means a big improvement in earnings.

This is not only wishful thinking among investors. Executives in some of the industries most battered by the Asian crisis, such as steel, report an about-turn in their prospects in recent weeks, even if it will take some time for this to show through in the form of higher earnings.

"All the tea leaves look good," said John Correnti, chief executive of Nucor, the second-biggest US steel producer. Nucor's stock slumped last autumn as Asian and Russian steel swamped the US market. Now, says Mr Correnti, the pressure has eased and orders are turning up again. The effects of this on Nucor's profits will not be felt during the first half of this year, but should become apparent during the autumn, he adds.

The prospect of this recovery has also helped focus the markets' attention on the relatively low level to which the stocks of such companies had fallen.

'Most of the internet speculators have never even owned a chemical stock'

The appetite for growth stocks that investors have displayed in the mid-to-late 1990s has meant that a vast valuation differential has developed between stocks in a few favoured sectors – information technology, telecommunications, pharmaceuticals – and the rest of the market.

Many argue that there has been a change in the industrial climate that justifies this differential. In a slow growth, low inflation and globally competitive economy, it is very hard for many companies to increase sales or prices. For many, life has been a struggle to cut costs just to stay in business.

Technology, pharmaceutical and telecommunications businesses all enjoy the advantage that their industries are increasing rapidly. Not only does this make it a lot easier for them to continue increasing profits, it means that they stand out from the rest of the market, and accordingly attract a premium rating.

But while some premium might be justified, has the market taken it too far? In the UK, for example, telecommunications stocks still trade on a historic price-earnings ratio of 56, while pharmaceuticals groups command a multiple of nearly 49; the rating afforded engineering stocks is just 15 and forestry and paper manages a mere 11. That seems to afford plenty of scope for bargain-hunters.

The US's leadership in many parts of the technology industry – and its early lead on the internet – have made some Wall Street comparisons even more extreme. Before a rally that set in last autumn, the five biggest US paper companies, which between them employ more than 200,000 people and have revenues of $55bn, were worth a collective $25bn. That is about the value, at its recent peak, of eBay, an internet auction company with 138 employees and revenues last year of under $50m.

With such bloated market values among the growth companies – and such relatively small capitalisations on cyclical companies – it does not take much of switch from one to the other to produce an out-sized bounce in paper or other cyclical stocks, says Byron Wien, US equity strategist at Morgan Stanley Dean Witter. "A little bit of money goes a long way," he adds.

So far the adjustment in relative valuations that has been under way in stock markets around the world this month has only amounted to a reversal of some big historical anomalies – the equity market equivalent of a bargain-basement sale.

It is far from clear whether cyclical companies will justify this enthusiasm – or even whether the very forces that have produced this turnaround could spell an end to the bull market.

For a start, it will be some months before companies in the most downtrodden industries like chemicals and steel, or capital goods, produce the sort of robust earnings rebound that investors are hoping for.

The overcapacity in world manufacturing has not gone away overnight, and as long as manufactured goods remain in surplus, few producers can look forward to a return of pricing power. In the US, the earnings boom that characterised the early years of the economic expansion has been trailing off for the past three years, with cyclical companies the most badly hit. The worst may be over for now, but it is unusual this late in the economic cycle to see anything more than a tepid rebound in growth, warn analysts at Lehman Brothers.

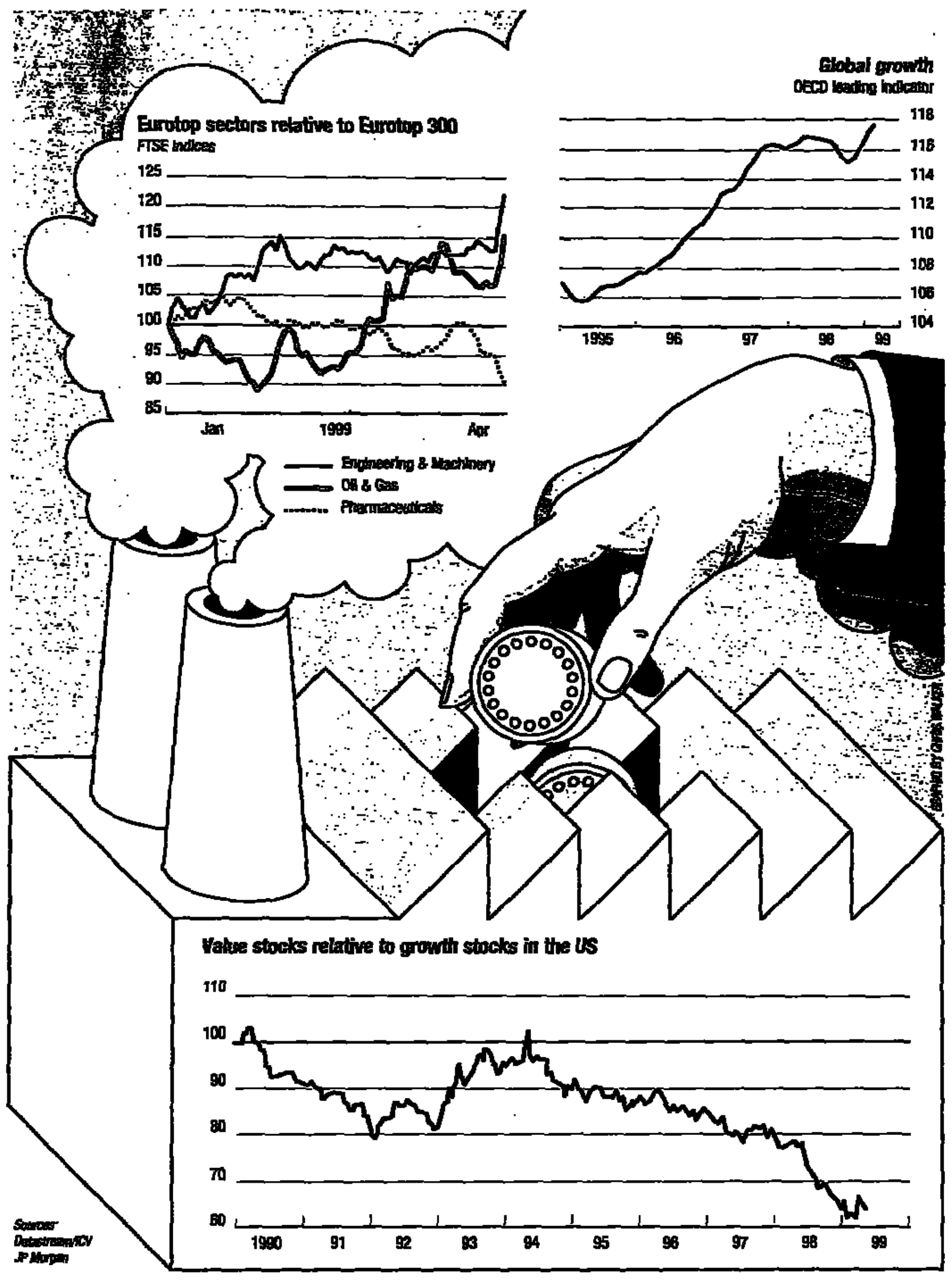
At the same time, the very forces that have produced the rebound in cyclical stocks could contain seeds of destruction for the bull market that has lasted more than 15 years on Wall Street.

Firstly, it could spell the end of the momentum-investing style that has proved highly conducive to the bull market, particularly on Wall Street. Momentum investing has worked well in the technology sector, with much of the buying coming from a new army of small shareholders.

This is a style that is unlikely to pay off if the market is moving into a new era of value investing, where picking the right moment to buy an undervalued share is the crucial skill. That requires sophisticated analysis that could be hard for the new retail investor. "Most of the internet speculators have never even owned a chemical stock," says Dick Hoey, equity strategist at mutual fund group Dreyfus.

Secondly, the change in sentiment signals a belief that the deflationary pressures that have squeezed the developed world's producers for so long are about to ease. But that implies they will eventually be able to rebuild their profit margins by raising their prices.

The last time companies involved in basic materials like chemicals, paper and metals did better than the stock market at large was in 1993, when the US economy was was surging out of recession. By early the following year, however, the Federal Reserve slammed on the inflationary brakes by raising interest rates. The cyclical upturn was short that time; it may prove so again.



OBSERVER

Welteke goes down well

It's smiles and sighs of relief all round on the Frankfurt financial markets, where Ernst Welteke's expected nomination as the next Bundesbank president is the second piece of excellent news in just over a month.

Oskar Lafontaine's spontaneous combustion as finance minister last month sparked celebrations not just because of his leftist economic policies, but because he seemed intent on pushing his deputy, Heiner Flassbeck, into the top Bundesbank slot.

Flassbeck, with his calls for currency target zones and a demand-led drive for growth, would have gone down like the proverbial lead balloon with bankers and businessmen alike. By contrast, Welteke is a familiar and well-liked face.

As head of the central bank of Hesse, the state containing Frankfurt, he's built up a reputation as a friend of business with useful political contacts. Above all, he is close to Germany's new finance minister, Hans Eichel, who moved Welteke into his current job in 1995.

Still, the business world can't take Welteke for granted. Among other things, he's criticised German banks for their ultra-close relationships with private companies and their way of using proxy votes at annual meetings. As was once said about Mikhail Gorbachev, Welteke has a nice smile – but iron teeth.

Corporate Sacrifice

Striking South Korean workers have finally found a corporate chieftain willing to share their pain. Daewoo chairman and founder Kim Woo-choong announced his debt-heavy conglomerate will sell $7.5bn in assets in a bid to survive.

And in an unusual gesture of humility, Kim's agreed to put Seoul's Hilton Hotel on the block. It's home to his luxurious penthouse apartment, where his wife keeps a celebrated art collection.

Pieces from her treasure trove, including a Henry Moore sculpture, could find a new home in one of Daewoo's galleries in Seoul and the resort town of Kyongju. And if Kim's forced to leave his digs, his workers can always put him up. After all, how many bosses are willing to sell the ground beneath their feet?

Compact charisma

Eckhard Pfeiffer, who made a sudden exit as chief executive of Compaq last weekend, used to be a golden boy. And he certainly had an achievement or two to his credit, if bringing the PC manufacturer back from the brink of disaster in the early 1990s is anything to go by.

He engineered Compaq's transformation into the biggest PC manufacturer in the world, masterminding a series of spectacular acquisitions which culminated in the purchase of Digital Equipment last year.

But one failing always stood out – or rather, didn't. In an industry littered with larger-than-life characters like Bill Gates of Microsoft, Larry Ellison of Oracle and Scott McNealy of Sun Microsystems, Pfeiffer scored low on the charisma stakes.

If McNealy is the industry's consummate showman – cracking jokes and poking fun at his rivals – Pfeiffer was almost a caricature of the earnest German business manager.

Even when he smiled the audience was left wondering whether the smile had to be written into the script.

In an industry where ponytails and earrings have become the hallmarks of success, Pfeiffer remained a buttoned-down business leader.

And if he'd come to work wearing in-line skates, instead of executive shoes, would his fate have been any different? Observer can only guess.

Four times a lady

Memo to Chancellor Gerhard Schröder of Germany: don't look now, but someone's creeping up on your shoulder. Yes, it's foreign minister Joschka Fischer, who last weekend matched Schröder's record for a serving German cabinet member by getting married for the fourth time.

The 51-year-old former Greens radical, dubbed "Joschka amoroso" in the German press, took time out from attending to the Kosovo war by wedding journalism student Nicola Leske, 29, in Frankfurt's Palmengarten botanical gardens.

Friends say the knot would have been tied a few weeks ago had it not been for the outbreak of hostilities in the Balkans.

Not that serial marriage guarantees a permanent place in Germany's Social Democrat-Green coalition. Thrice-wed Oskar Lafontaine crashed out as finance minister in March after only five months in office. Still, the interior, transport and labour ministers are all into their second marriages, and Schröder took the plunge for the fourth time in 1997.

In love if not in politics, the government clearly believes that nothing succeeds like excess.

Bonding

Investors in Washington DC are being enticed by some exciting new bond issues, Observer hears.

They are being offered a choice of: the Monica bond, which has no maturity; the Clinton bond, no principle; or the Hillary bond, no interest.

Financial Times

100 years ago

Brady and Co. Limited
The verdancy of the Emerald Isle has frequently formed the theme of local poets, but the investors of Erin must be greener than in its celebrated grass, judging from the kind of prospectus now fashionable in Belfast. We have commented on these before in our columns and we have before us now another specimen. It is that of a small cycle agency and manufactory, by the name Brady and Co. Limited, with a capital of £5,000, of which £2,000 in £1 shares is offered for subscription. There is no statement as regards the value of the assets to be taken over, and all we are told about the profits is that the average of the past three years is sufficient to pay a dividend of 10 per cent on the present issue of shares. Even the price to be paid is not stated. Nothing could be more vague, but it is apparently considered good enough for Belfast.

50 years ago

U.S. record broken
A British Austin Atlantic car to-day broke the record for seven days on the Indianapolis speedway. Unofficially, the mileage for the seven days was 11,875, at an average of 70.68 m.p.h.

FINANCIAL TIMES
TUESDAY APRIL 20 1999

THE LEX COLUMN

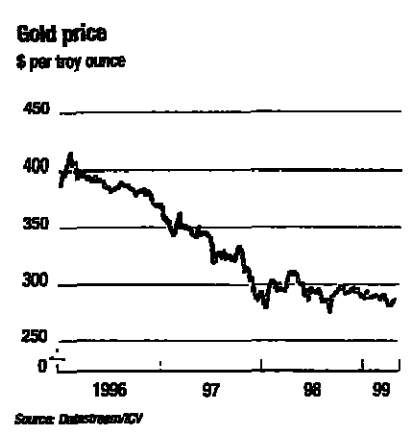
Rebooting Compaq

Eight years ago Eckhard Pfeiffer was parachuted in as chief executive of an ailing Compaq and engineered a hugely successful turnaround. Now, with the computer maker again in trouble, Mr Pfeiffer has himself been ousted. Both times, the man leading the boardroom putsch was Ben Rosen, Compaq's long-time chairman. Mr Rosen, who blames his former protegé for slow decision making, clearly hopes a change at the top will once again revive Compaq's fortunes.

It will not – at least not by itself. Poor execution, such as last year's inventory build-up, has compounded the group's problems. But its fundamental dilemma is strategic. Compaq is transforming itself from a personal computer assembler to an integrated service and solutions provider along the lines of IBM. Unfortunately, it has been caught half-way by plummeting prices in its original PC business, spurred by the rise of the internet and direct sellers such as Dell and Gateway. Compaq's response, adopting a hybrid model of part direct, part indirect sales, has failed. It has angered its established distributors without doing much to lower costs.

Since PCs are rapidly turning into commodities, Compaq has no choice but to grind on with its transition. With Tandem, Digital Equipment and a growing web presence, it now owns most of the relevant pieces. But knitting them together will take time, however inspired the new management.

Gold



Switzerland's decision to break the franc's link to gold is a blow for sentiment in a punch-drunk market. According to World Gold Council figures, the 2,590 tonnes of gold in the Swiss National Bank's reserves make it the world's fourth biggest holder of bullion after the Eurosystem, the US and the International Monetary Fund. The bank's aim of selling 1,300 tonnes has long been unsettling the market. From its January 1996 high of $416, the gold price has now fallen well below $300, fixing on at $285. Gold bulls take comfort from the fact that the SNB is unlikely to dump all 1,300 tonnes on the market at once, even if the government does want to raise some quick cash for its Solidarity Fund.

After all, it will want to preserve the value of the other half of its bullion. Assuming, for sake of argument, the SNB sells it calmly over a decade, averaging 130 tonnes a year, the market should have little trouble absorbing the additional supply, especially as the Asian economic recovery gathers steam. Analysts estimate the market shortfall at 1,000 tonnes per year. However, Switzerland is far from being the only seller. Other central banks and the IMF are increasingly conscious of the opportunity cost of holding gold as they contemplate the interest they forgo. Nor is there any obvious way to co-ordinate a collective exit, since each holder has an incentive to sell first. Much of this likely disarray is already in today's price. But not all.

Korean restructuring

The Korean government can breathe a little easier. Daewoo and Hyundai, the country's two largest *chaebol*, or conglomerates, are backing away from confrontation over its demands that they cut their colossal debts. Both have unveiled belated restructuring plans. Daewoo plans to sell businesses worth Won9,000bn ($7.3bn) to reduce its Won60,000bn of borrowings – equivalent to a vertigo-inducing five times equity. Hyundai is still coy on exactly how it might raise cash, but is promising to cut its debts by a quarter.

The plans alone will not restore either group to health. Nor will they fulfil government demands that the *chaebol* reduce borrowings to a still racy two times equity by the end of the year. But they may reflect a necessary change of heart. By foot-dragging over reducing capacity and recapitalising their debt-laden empires, the family-owned *chaebol* are threatening to hold back the recovery of Korea's economy. Hyundai and Daewoo have been the worst offenders.

One reason for the change of tune has been the government's willingness to get tough. It is threatening to unleash Korea's largely nationalised banks on the *chaebol*, demanding debt-equity swaps as the price of further support. This threat is not without risk. Another banking crisis could result, since the swaps would lead to big write-offs. Despite yesterday's promises of restructuring, it is not yet clear if the government's gamble will pay off.

Withholding tax

The proposal to exempt the wholesale bond market from a new EU-wide withholding tax is dangerously seductive. This latest compromise seems designed to whittle away objections from the London-based Eurobond market. In principle, it should not. As the problem is tax evasion in some countries – notably Germany – it would be better to tackle it via transparency of information on interest income, as happens in the US. Practical objections also remain. Individual investors who have already moved funds across at least one border will move them again.

The seductive part of the compromise suggestion is that it appears to be aimed at the very people who might be dodging tax. Either they would be deterred from buying the bonds by a high-sounding minimum denomination of €40,000, or their income would somehow be branded "retail" and subjected to withholding tax. Here the practical problems swing in: sophisticated individuals will get round these obstacles; but paying agents, custodians and so on will face considerable hassle. Liquidity will be harmed and borrowing costs will rise.

It is sad that the best hope for limiting the damage of this tax proposal would be for the exemptions to be huge. Notably all existing bonds would have to be exempt to avoid triggering default clauses. EU finance ministers would do better to redouble efforts to improve enforcement and lower the tax rates that encouraged evasion.

EBRD may cut lending in response to Russian crisis

Bank president announces cautious 1999 plan and shift in policy

By Stefan Wagstyl, East Europe Editor

The European Bank for Reconstruction and Development, the multilateral bank for the countries of the former Soviet bloc, could cut its lending in the wake of the Russian crisis, Horst Köhler, the bank's president warned yesterday.

The bank has also adopted a business strategy, under which it would pay close attention to the health of the countries in which potential corporate borrowers operated.

The Russian crisis was still affecting countries throughout the region, hitting confidence and increasing risk, Mr Köhler told the bank's annual meeting in London.

"In accordance with our mandate we cannot compromise sound banking principles. That means that we have to be even more selective than in the past: quality, as well as volume of projects, is important."

The bank's 1999 plan envisages the possibility of cutting new loans from €2.4bn ($2.56bn) last year to as little as €1.8bn, though it leaves open the hope of an increase to €2.8bn if the business climate improves.

Mr Köhler said: "The volume of new commitments in 1999 will depend on the investment climate determined by our countries of operations."

The 1999 plan follows a review of the bank's operations carried out since Mr Köhler's arrival at the EBRD, which coincided with last summer's Russian crisis.

The EBRD, which is jointly owned by countries in the region that borrow from the bank and by developed nations that provide finance, lost €261.2m in 1998, after setting aside €553.1m in provisions for bad and doubtful debts. Bank officials said restructuring some of these assets would be a significant task for 1999.

The EBRD's cautious 1999 plan met with a warm welcome from western Europe. Yves-Thibault de Silguy, the European commissioner responsible for financial affairs, said the bank's ambition had to be matched by realism.

But Edwin Truman, the assistant secretary for international affairs at the US Treasury, was less enthusiastic. He urged the bank to continue to focus on Russia and other less advanced countries rather than on the more successful economies of central Europe.

Andrei Shapovaliants, Russian economy minister, said the EBRD's short-term need to enhance its portfolio should be kept separate from the medium-term requirement to encourage economic transition.

Mr Köhler also presented a medium-term strategy in which a key element would be increasing the EBRD's involvement in policy discussions with governments, particularly in sectors where the bank was investing.

The medium-term strategy also envisaged focusing on priority areas, including small and medium-sized companies, banks, infrastructure schemes, equity investments, restructuring big industrial enterprises and projects promoting a sound investment climate.

India's Congress party claims it can form new government

By Mark Nicholson in New Delhi

India's Congress party claimed yesterday it would form a new government to replace the ousted Bharatiya Janata party coalition "within days", but said it would approve the BJP's budget tomorrow.

Congress and BJP leaders agreed to pass the February 28 budget of Yashwant Sinha, former BJP finance minister, without any amendments.

The move cheered markets and industry, which had pleaded that the popular budget should not fall victim to India's latest political crisis. The Bombay market rose 3.74 per cent on the news, the BSE Sensex closing up 124 points at 3,451.

The shape of any possible Congress-led coalition remained unclear and there were signs that the BJP had not given up hopes of returning to office. Congress leaders insisted they could count on the support of more than 273 MPs – a slim majority in the lower house of India's fractured parliament.

But seven communist MPs were insisting their party could not back a Congress government, while Congress leaders did not define the shape of its proposed government.

BJP leaders suggested that President K.R. Narayanan might have to reinstal a BJP-led coalition – despite losing a confidence vote on Saturday.

"The only viable alternative [government] that can be sworn in is that led by Atal Behari Vajpayee," [the outgoing prime minister] said Pramod Mahajan, a senior BJP leader.

Sonia Gandhi, Congress president and possibly the party's prime ministerial candidate, said the party was ready to "discharge our constitutional obligations", but was still awaiting a formal invitation from the president.

The BJP – now acting as a caretaker government – also sought to offer some continuity on foreign policy.

Jaswant Singh, foreign minister in the ousted coalition, said he had told his ministry to proceed with a planned joint working group meeting with neighbouring China this month, the first since India's nuclear tests last May.

But Washington, in particular, is concerned over the prospects for India signing the Comprehensive Test Ban Treaty. Madeleine Albright, US secretary of state, yesterday convened a special meeting on south Asia to discuss recent events in the region – including India and Pakistan's missile tests and the conviction of Benazir Bhutto, former Pakistan prime minister, on corruption charges.

US officials believe it will be impossible to get India's signature on the treaty by May, as had been hoped. There is also doubt over whether India can be brought to sign the treaty by its September deadline – particularly under a government led by Congress, which harbours strong opposition to the test ban treaty.

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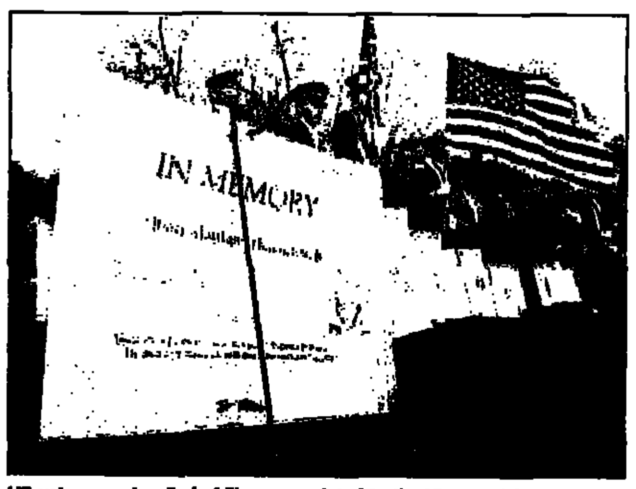

US veterans who died of illnesses related to the Vietnam War were remembered at a ceremony in Washington yesterday. Reuters

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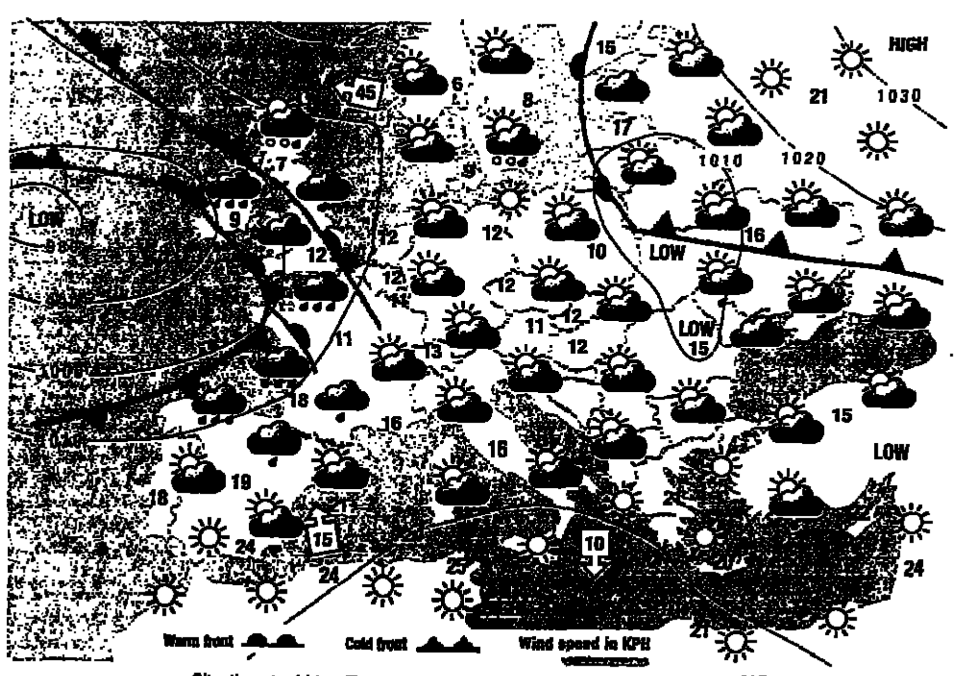
FT WEATHER GUIDE

Europe today

France will be cloudy with outbreaks of heavy rain. During the afternoon, the rain will push into the Low Countries, western Germany and Switzerland. East Germany, Austria and the northern and western Balkans will have sunny spells and showers. Poland and the eastern Balkans will have a higher risk of showers, but farther north-east it will be fine. Scandinavia will be chilly but bright with isolated wintry showers. Most of the Mediterranean will be sunny. Northern Portugal and northern Spain will be wet.

Five-day forecast

Low pressure across central and north-western Europe will bring heavy showers and some more prolonged rain but it will be milder than recently. There will be occasional showers in the central and western Mediterranean.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

	Maximum Celsius	
Abu Dhabi	Sun	30
Accra	Thunder	32
Algiers	Sun	24
Amsterdam	Rain	12
Athens	Sun	21
Atlanta	Thunder	25
B. Aires	Fair	22
B.ham	Rain	9
Bangkok	Thunder	32
Barcelona	Fair	19
Beijing	Fair	24
Belfast	Rain	9
Belgrade	Shower	14
Berlin	Fair	12
Bermuda	Shower	23
Bogota	Shower	20
Bombay	Fair	34
Brussels	Rain	12
Budapest	Fair	12
C.hagen	Fair	8
Cairo	Fair	29
Caracas	Sun	30
Cardiff	Rain	11
Casablanca	Fair	21
Chicago	Fair	13
Cologne	Shower	12
Dakar	Fair	24
Dallas	Fair	30
Delhi	Fair	34
Dubai	Sun	31
Dublin	Rain	10
Dubrovnik	Fair	16
Edinburgh	Shower	7
Faro	Fair	20
Frankfurt	Shower	12
Geneva	Shower	13
Gibraltar	Sun	23
Glasgow	Shower	7
Hamburg	Fair	12
Helsinki	Fair	15
Hong Kong	Shower	27
Honolulu	Sun	29
Istanbul	Sun	18
Jakarta	Thunder	29
Jersey	Rain	13
Johannesburg	Thunder	26
Karachi	Sun	34
Kuwait	Sun	32
L. Angeles	Sun	20
Las Palmas	Fair	23
Lima	Cloudy	25
Lisbon	Rain	18
London	Rain	12
Lux.bourg	Rain	10
Lyon	Cloudy	16
Madeira	Sun	21
Madrid	Cloudy	18
Majorca	Sun	21
Malta	Sun	18
Manchester	Rain	9
Manila	Fair	34
Melbourne	Fair	17
Mexico City	Fair	30
Miami	Sun	27
Milan	Fair	16
Montreal	Shower	12
Moscow	Sun	21
Munich	Shower	13
Nairobi	Thunder	27
Naples	Fair	18
Nassau	Shower	27
New York	Shower	13
Nice	cloud	15
Nicosia	Fair	22
Oslo	Hail	6
Paris	Rain	13
Perth	Fair	28
Prague	Fair	12
Rangoon	Fair	34
Reykjavik	Fair	7
Rio	Fair	24
Rome	Fair	16
S. Frsco	Sun	18
Seoul	Fair	25
Singapore	Thunder	32
Stockholm	Shower	8
Strasbourg	Rain	12
Sydney	Fair	23
Tangier	Fair	21
Tel Aviv	Fair	24
Tokyo	Fair	23
Toronto	Shower	10
Vancouver	Rain	11
Venice	Fair	14
Vienna	Fair	11
Warsaw	Rain	7
Washington	Shower	16
Wellington	Fair	17
Winnipeg	Cloudy	10
Zurich	Rain	11

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Dasa ready for rapid ascent in Japan
DaimlerChrysler Aerospace (Dasa) is aiming to lift sales in Japan in the next decade to $1bn, climbing from its present level of Y15bn ($127m). Its ambitions accord with the Daimler-Chrysler group's goal to increase turnover in the Asian markets from 3.3 per cent of overall turnover to between 20 and 25 per cent. Page 22

Bombay revives on budget hopes
India's benchmark BSE-30 index rose 124 points, or almost 4 per cent, to 3,451 yesterday on news that a market-friendly budget would be approved this week despite the fall of the government. The rise followed a market bloodbath on Saturday when Atal Behari Vajpayee (left), the prime minister, lost a vote of confidence. Investors fear prolonged instability whoever forms a government. Emerging market focus, Page 40

Pension funds test managers' mettle
Pension fund managers in Britain are worried by the consequences of the dispute between the Unilever pension fund and Mercury Asset Management over performance levels. Page 24

Indonesian groups seek debt pacts
Bakrie & Brothers, the diversified conglomerate, hopes to be the first large Indonesian company to obtain creditor approval today for a restructuring of $1.15bn in debt. It will be followed by Astra International, the carmaker. Page 22

Scramble for commodity stocks
The equity markets have decided that commodities have bottomed. Sydney, Johannesburg and Toronto, home to big resource companies, are seeing a revival in commodity producer equities as international institutions scramble to correct their underweight positions. Page 30

Pakistan delays the inevitable
Pakistan gained only brief respite from Paris Club pressure to restructure its international bonds by postponing a meeting with its western donors in Paris this week on ways of restructuring its $3.3bn of foreign debt. Page 28

Amerada sails into Brazilian waters
Amerada Hess, the US energy group, yesterday began exploring for oil and gas in the waters off Brazil's coast, making it the first foreign company to enter the country's principal offshore oil-producing basins. Page 20

India to hold back sugar imports
India, the largest producer and consumer of sugar, is planning to restrict further sugar imports. Domestic producers are annoyed by a fall in prices triggered by the arrival of 1.4m tonnes of foreign sugar outside the 2.2m tonnes contracted by traders. Commodities, Page 30

COMPANIES IN THIS ISSUE

MARKET STATISTICS

European retail groups consolidate

Alliance plans in UK, Germany and France

By Peggy Hollinger and Andrew Edgecliffe-Johnson in New York

Europe's retail sector is braced for consolidation as some of the region's leading companies yesterday announced alliances aimed at creating a retailing superleague.

Kingfisher and Asda, two of Britain's best known retailers, revealed details of a merger deal to create Europe's biggest stores group by operating profit and fourth by sales.

In Germany, Karstadt, the country's biggest department store operator, and Quelle, the second largest mail order group, announced plans to merge their mail order businesses. The deal would create a new group with combined turnover of DM33bn (€16.8bn, $18bn), rivalling the world leader Otto Versand.

In France, two food retailers, Casino and Cora, set up a purchasing joint venture to buy supplies of some FFr170bn (€26bn, $28bn) a year for hypermarkets, supermarkets and convenience stores.

Analysts said the alliances were the beginning of a pan-European consolidation driven by a need for scale in an increasingly global economy. "Retailing is polarising and everything has got to be very, very big or very, very niche," said one. "If you fall in the middle you will get killed." Mid-sized companies could not hope to fight against the power of a competitor such as Wal-Mart of the US, the world's biggest retailer. "Some 15 per cent of Procter & Gamble's turnover goes to Wal-Mart," he said. "With power like that you can really hit people."

Several other retailers are thought to be searching for ways to make pan-European mergers work. Tesco, the UK's largest food retailer, last week admitted: "Everyone is talking to everyone".

Kingfisher and Asda stressed the importance of scale as they outlined their merger plans. Combining the two companies creates one of the world's top 10 retailers by market value, expected to fall at about £19bn ($30bn). The companies said pro forma sales would be more than £17bn, while analysts forecast more than £19bn for the year 1999/2000.

Kingfisher shares finished down 44p at 796p, a fall of some 9 per cent since the day before the deal was announced last week. It is understood a Goldman Sachs fund manager who does not like the deal was selling Kingfisher shares. Asda closed 5p down at 193¾p.

Meanwhile, speculation in the market that a rival bid would emerge for Asda appeared to fade.

Analysts in New York said it would be surprising if Wal Mart were to break up an agreed deal between two UK retailers. "It would be out of character," said Patrick McCormack of BT Alex Brown.

Wayne Hood of Prudential Securities said: "I think anything is possible, but it would not be typical of Wal-Mart." He added, however, that acquisitions in the UK was almost certain to form part of Wal-Mart's long-term strategy for international expansion.

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Analysis and Comment, Page 24

Hyundai and Daewoo announce restructuring

S Korean conglomerates will sell assets to cut debt

By John Burton in Seoul

Hyundai and Daewoo, South Korea's two biggest conglomerates, or *chaebol*, yesterday announced restructuring plans to cut their large debts in response to growing government pressure.

The proposals came after Kim Dae-jung, the Korean president, warned that the government was prepared to take management control of *chaebol* units through a debt-for-equity swap with state banks if they failed to meet a mandated gearing ratio of 200 per cent by the end of 1999.

Hyundai and Daewoo have been criticised for backsliding on promised restructuring among the top five *chaebol* since their debts grew significantly in 1998. Officials have praised the progress of other leading *chaebol*.

Second-ranked Daewoo said it would raise more than Won9,000bn ($7.3bn) in asset sales to help halve its debts of Won60,000bn, or five times its equity. Units to be sold include its profitable shipbuilding division, two Hilton hotels in Korea, a life insurance firm and a telecoms equipment company. The announcement was made by group chairman Kim Woo-choong.

The restructuring would leave Daewoo focused on car manufacturing, financial service and trading operations. Daewoo is also negotiating to swap its consumer electronics unit, Daewoo Electronics, for Samsung Motors.

Analysts said the asset sales would ease concerns about Daewoo's financial troubles after Standard & Poor's, the credit rating agency, last week downgraded the rating of Daewoo Corporation, the group's parent company, to B- from B.

Hyundai, the largest *chaebol*, said it would raise more than Won20,000bn through asset sales, rights issues and equity investment by foreigners, but gave few details. Hyundai's debts last year grew by 17.5 per cent to Won72,582bn, the biggest among the *chaebol*, due to an acquisition spree. Its estimated gearing jumped to 600 per cent if asset revaluations were excluded.

Analysts were sceptical whether Hyundai would be able to raise the funds needed to cut its debt to Won50,000bn this year. "With Daewoo's debt problems apparently resolved, I expect government pressure will shift to Hyundai," said Jang Ha-sung, a professor of finance at Korea University and a leading *chaebol* critic.

The government has warned it might investigate allegations of insider trading in the shares of Hyundai Electronics by related affiliates and relatives of Chung Ju-yung, the Hyundai founder.

Hyundai also needs to raise capital to finance its takeover of LG Semicon, the Korean chipmaker, under a state-proposed merger to reduce overcapacity in the industry. Talks have been stalled over Hyundai's acquisition price.

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Lex, Page 16
Daewoo sale, Page 22

Daewoo chairman Kim Woo-choong announcing his plans in Seoul AP

Citigroup profits climb 12% to $2.4bn

By John Authers in New York

Citigroup, the financial services conglomerate formed by last year's merger of Citicorp with Travelers Group, yesterday launched a bullish assessment of its prospects, as its first-quarter earnings came in well ahead of expectations.

The company appears to have overcome the most severe problems encountered in the wake of the merger. Strong revenue growth, helped mainly by the company's consumer side, helped the company raise profits 12 per cent to $2.42bn.

Sandy Weill, co-chief executive and former head of Travelers, said Citi's earnings were greater than General Electric's for the quarter. He added that the Salomon Smith Barney investment bank, which suffered serious losses during the Russian crisis, recorded a profit of $720m, nearly 20 per cent more than Merrill Lynch for the quarter.

John Reed, the other co-chief executive, said the company had benefited from "benign" economic conditions, particularly in the US, and that synergies from the merger were yet to come.

He suggested that Europe would be a focus for activity on the corporate and investment banking side of the business. "We clearly aren't strong in Europe. If you look at Goldman Sachs or Morgan Stanley Dean Witter, they have a more significant business in Europe than we do at this point. Now that we have Salomon Smith Barney and Citi together, we are going to try and figure out if we can play a more effective role in the European marketplace."

He conceded that Citibank had not focused on Europe as more than a home for its foreign exchange business.

Mr Weill also said he was optimistic about Salomon Smith Barney's joint venture with Nikko Securities in Japan, launched last month, which was already profitable. He said: "When the Japanese economy improves, that joint venture will be really outstanding."

The integration of the former Citicorp's corporate banking business into Salomon Smith Barney was initially a serious problem for the company, and was highlighted by the departure of Jamie Dimon as Citigroup president last November.

Mr Weill claimed that during the first quarter "there were approximately 60 deals that were done with Citibank and Salomon working together that wouldn't have been done without that".

He added that Salomon's financial consultants had generated referrals for approximately $200m in Citibank mortgages during the quarter.

Mr Weill also said the company continued to invest in new distribution systems, taking a $36m loss on its "e-Citi" initiative, which invests in research into electronic commerce. This was a 20 per cent greater loss than in the equivalent period last year.

By mid-session, Citigroup's shares had gained 4 per cent, up $3⅞ at $74¼.

Fortunes diverge, Page 20

Compaq at the crossroads after Pfeiffer's departure

By Louise Kehoe in San Francisco

The weekend drama at Compaq Computer, where Eckhard Pfeiffer, chief executive, was ousted by the board of directors, and Earl Mason, chief financial officer, resigned, did little to cheer shareholders yesterday.

Its shares were trading at $23¾ in mid-session, down $⅝ from Friday's close and near a 12-month low of $22⅞.

While the management changes may help repair relations between Compaq and Wall Street analysts, whose confidence was shaken by the company's surprise profit warning earlier this month, several uncertainties remain.

On Wednesday, Compaq is scheduled to release its first quarter financial results. The company has warned that earnings are expected to be only about 15 cents a share, far below analysts' predictions of around 31 cents. However, it remains to be seen which segments of Compaq's business underperformed in the first quarter, and to what effect the acquisition last year of Digital Equipment had on earnings.

Analysts have broadly rejected Compaq's initial explanation for the earnings disappointment. Compaq said industry-wide pricing pressures and slack demand for PCs from US corporate buyers were to blame, but there is a growing consensus among industry analysts that Compaq's management failed to keep pace with rapid changes in the PC market.

Ben Rosen, Compaq chairman who has taken on the role of interim chief executive while the company searches for a replacement for Mr Pfeiffer, told Wall Street analysts the management changes did not signal that first quarter earnings were expected to be worse than flagged.

With Mr Pfeiffer's departure, the big question is: who will run Compaq in the future? In the meantime Mr Rosen, with two other non-executive directors, will form a temporary "office of the chief executive".

"This will not be a caretaker crew," Mr Rosen said. "We are on site [at Compaq headquarters in Houston] and making decisions." Those decisions are expected to include additional management changes. Mr Rosen made clear he would be moving to accelerate decision making.

Finding a new chief executive may prove difficult. The company had engaged search firms to look worldwide, Mr Rosen said. Any new chief executive faces the prospect of being second-guessed by Mr Rosen, who has been an active chairman. The next chief executive might also wonder whether he or she would eventually follow in the footsteps of Mr Pfeiffer and his predecessor, Rod Canion, both ousted by Mr Rosen.

Yesterday Mr Mason was appointed chief executive of Alliant Food Services, a Chicago-based food distribution group.

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Lex, Page 16

Doughty planning IPO for Geberit

By Charles Pretzlik

Doughty Hanson, the UK private equity firm, is planning an initial public offering in the summer for Geberit, the Swiss sanitary products group it controls.

Doughty bought a 79 per cent stake in Geberit in March 1997 for SFr1.8bn ($1.2bn). Doughty is thought to have originally hoped Geberit would be valued at almost $1bn on the offering, but last night analysts said it would be valued at closer to $700m.

The listing is understood to have been pencilled in for the summer and will take place on the Zurich stock exchange. An announcement is expected shortly.

The issue is to be handled by Credit Suisse First Boston, the investment bank. This is a coup for CSFB because Warburg Dillon Read had originally been asked to review the options for Geberit.

The two are bitter rivals and Warburg is considered dominant in the Zurich new issues market. The Geberit offering is expected to be the largest new issue in Switzerland since last year's SFr7.5bn float of Swisscom, the state-owned telecommunications company.

Geberit has increased its turnover from SFr905m in 1996 to more than SFr1bn last year. One analyst said: "It has a dominant share of the market for behind-the-wall plumbing systems. That is the trend the industry is progressively moving towards." It also specialises in high-technology automatic flushing systems for lavatories.

Geberit also has a plastic pipes business. This year it bought Terrain, the plastic pipes subsidiary of Caradon, the UK building materials group, for £27m cash.

The group manufactures ceramic bathroom products, but analysts believe it does not regard this business as core.

Analysts said the group would be difficult to value.

The offering of Geberit would come 2½ years after Doughty floated another Swiss company, Tag Heuer, the watchmaker, on the New York and Zurich stock exchanges. This year it bought Tornos Bechler, the Swiss lathe manufacturer.

Doughty, which opened an office in New York this year, last night declined to comment.

RETAILING MERGER SPARKS SPECULATION ABOUT FURTHER EUROPEAN CONSOLIDATION AS CASINO AND CORA LINK BUYING OPERATIONS

Schickedanz, Karstadt in mail order deal

By Tony Barber in Frankfurt and David Owen in Paris

Schickedanz, the privately owned German retailer, announced plans yesterday to merge its mail order business with Karstadt, Germany's biggest department store company, in a step that reflects the increasingly intense competition in Europe's retail sector.

Karstadt's share price jumped by almost 8 per cent after the company said it would ask shareholders at its annual general meeting on July 15 to approve the merger with the mail order house Quelle.

Shares also rose in other European retailers as investors expressed optimism that the continent's retail sector, long divided into relatively small national fragments, was heading for a phase of consolidation and cross-border expansion.

Two French retailing groups – Casino and Cora – said they had agreed to merge their purchasing operations into a joint venture – Opéra – which will buy supplies for hypermarkets, supermarkets and convenience stores whose total annual sales amount to FFr170bn (€26bn, $28bn). Cora is 42.3 per cent-owned by Carrefour, another French retailer, which had no comment yesterday.

Approval of the Schickedanz-Karstadt deal is considered virtually certain, since Schickedanz has built up a 48 per cent stake in Karstadt over the past two years.

The new group, to be based in Essen and called Karstadt Quelle, would have a combined turnover of DM33bn (€16.8bn, $18bn), making it one of the largest in Europe.

"The path on which we embarked in August 1997 by buying into Karstadt will be completed with the merger," said Andreas Neuner, a Schickedanz spokesman. "We expect a boost in employment as a result of joint tapping of new markets at home and abroad."

Among those benefiting from yesterday's wave of confidence on the stock market was Metro, Karstadt's main German rival and the world's second biggest retailer in terms of sales after Wal-Mart of the US. Shares in Metro closed more than 3 per cent higher in Frankfurt.

The decision of Metro and other German retailers to streamline their operations and seek new markets in the euro-zone owes much to Wal-Mart's recent expansion into Germany, where its aggressive discounting strategy has begun to shake up old habits.

Volvo outlines use of Ford cash

By Tim Burt in Stockholm

Volvo, the Swedish automotive group, yesterday announced a SKr26.7bn ($3.21bn) capital gain on the sale of its car division to Ford of the US and pledged to use the proceeds for a share buy-back and acquisitions in its five remaining business areas.

The company, which is to sell its car arm to Ford for SKr50bn, said the disposal had lifted its net cash reserves to SKr54.1bn at the end of the first quarter – up from SKr14.8bn at the end of last year.

Leif Johansson, chief executive, re-affirmed plans to buy back SKr10bn of shares and welcomed the Swedish government's decision to introduce legislation permitting such buy-backs.

He also said Volvo would use its strong cash position to make bolt-on acquisitions in areas such as trucks, buses and construction equipment.

But he declined to comment on Volvo's pursuit of Scania, the Swedish heavy truck maker in which it has acquired a near-13 per cent stake for SKr5.2bn.

He was speaking after Volvo announced a 15 per cent increase in underlying first quarter profits, with operating income up from SKr1.06bn to SKr1.22bn on sales ahead 10 per cent from SKr24.6bn to SKr27.1bn.

The figures, excluding contributions from the car division, mainly reflected higher profits in the trucks business – up from SKr636m to SKr817m. That offset a poor performance by the bus division, which reported a SKr67m loss following weak demand in Latin America and restructuring costs.

Industry analysts also expressed concern at falling profits in construction equipment, down from SKr297m to SKr183m amid production and inventory problems in some markets.

Volvo's most commonly traded B shares fell SKr7 to SKr226.

Ring in the changes: Emilio Botín, left, and José Mari Amusátegui, joint chairmen of Banco Santander Central Hispano, yesterday launched the shares of the newly merged bank. BSCH lost ground soon after its market debut in Madrid, closing at €21.62. AP

Gucci suggests LVMH offers it $88-a-share

By Alice Rawsthorn in London and David Owen in Paris

The board of Gucci, the embattled Italian fashion company, has written to LVMH, the French luxury goods group, promising to recommend acceptance of an LVMH offer if the latter raises its conditional $85-a-share offer to an unconditional one of $88, thereby valuing Gucci at $9bn.

The decision to send the letter, described by one Gucci executive as "put up, or shut up for LVMH", was taken at a meeting of Gucci's supervisory board on Sunday.

It was dispatched yesterday, a few days before a critical court case, starting on Thursday, that will determine the outcome of the Gucci battle.

LVMH described Gucci's latest proposal as "a torpedo without a warhead". The French group claims that it is impossible to mount a successful offer to secure control of Gucci because of the 42 per cent stake issued to Pinault-Printemps-Redoute (PPR), the French retail concern founded by François Pinault, a former ally of Bernard Arnault, LVMH's chairman.

The legality of the PPR stake, for which the Pinault group paid $2.9bn, and a previous issue of 20m shares (the same number that LVMH owns) to Gucci employees will be addressed in the court case starting at the Amsterdam Court of Appeal on Thursday.

LVMH indicated yesterday that it was unlikely to amend its $85 offer before Thursday's hearing. "There is absolutely nothing in Gucci's letter that changes the chances of success for an offer," commented one executive, who alleged that Gucci had sent the letter to distract investors' attention from LVMH's quarterly results.

After the results announcement, LVMH's shares rose by €21.50, or 10 per cent, to €236.50 in Paris. Gucci's shares were also up by €3.65, or 5.2 per cent, to €74.40 in Amsterdam.

LVMH mustered a 12.8 per cent advance in sales, which rose to €1.76bn from €1.56bn in the three months to March 31. Improvements ranged from nearly 30 per cent in the champagnes and wines unit (31 per cent on a constant basis) to 3.6 per cent in selective retailing.

The French group said that sales of DFS, its duty-free chain, were ahead of budget, although lower than a year earlier because of the closure of certain stores. It said the year-on-year overall sales advance for March reached 18 per cent.

Turnover in fashion and leather goods, which includes Louis Vuitton luggage and the Givenchy fashion house, increased by 12 per cent.

TELECOMMUNICATIONS ITALIAN GROUP WILL NOT BACK DOWN DESPITE DEUTSCHE TELEKOM'S MERGER PLAN

Olivetti sticks to hostile bid for Telecom Italia

By Paul Betts in Milan and Vincent Boland in London

Roberto Colaninno, Olivetti chief executive, insisted yesterday that his company would go ahead with its €60.4bn ($64.6bn) hostile bid for Telecom Italia despite today's expected announcement of a blockbuster merger between the Italian operator and Deutsche Telekom.

The disclosure of the proposed merger had sparked frantic political manoeuvring in Rome amid suggestions that political pressure was being put on Mr Colaninno to negotiate a deal with Telecom Italia's core shareholders to involve Olivetti in the Deutsche Telekom deal.

Olivetti, it was argued, would help reinforce the Italian component in Telecom Italia's shareholding structure to boost the Italian voice in any eventual merger with the German company. But Mr Colaninno made it clear yesterday that he was carrying on with his bid and wanted the market to decide the outcome.

Officially, Olivetti said it was not in a position to give any assessment of the proposed merger. But it said it shared in principle the Italian government's view "that parity and genuine privatisation of Deutsche Telekom are prerequisites for such a project".

Olivetti has clearly been taken aback by Telecom Italia's talks with Deutsche Telekom. The Olivetti camp considers the proposed merger is a desperate attempt to thwart its takeover bid and questions the logic of mating two telecommunications elephants.

Analysts said Olivetti was not yet out of the race to win Telecom Italia, which has been frantically trying to shake off its predator. But they doubted whether Olivetti had the ability to increase its already highly leveraged bid for its target, which is five times its size.

"If the Deutsche Telekom/Telecom Italia merger goes ahead it will likely be all paper," said Roberto Odierna, telecoms analyst at Société Générale in Milan. "A strong point of the Olivetti bid is its cash component, and while it will be very hard to increase it, it's certainly not out of the game yet."

Olivetti's freedom to trump the proposed merger could depend on the extent of its agreement with Mannesmann, the German operator, to which it is to sell its Italian mobile telephone interests – which they jointly own – if its bid for Telecom Italia is successful.

There was speculation yesterday that Deutsche Telekom, by linking with Telecom Italia, was seeking to counter a competitive threat in Italy from Mannesmann, whose position in that market will be considerably strengthened by its purchase of Olivetti's stake in the Oliman joint venture.

Olivetti is awaiting final approval from Consob, the Italian stock market regulator, for its bid prospectus. It needs permission by Thursday to meet its end of April deadline to launch the bid.

If it fails, Telecom Italia would no longer be tied down to the "passivity" rules of the Italian takeover code and would be free once again to organise its defences.

NEWS DIGEST

AIRLINES

AUA hopes to raise €250m with new equity

Austrian Airlines (AUA), one of Europe's fastest-growing and most profitable carriers, is seeking to raise around €250m ($268m) in new equity to reduce its gearing and help finance expansion. This is the first equity-raising exercise in nearly a decade for the airline, which has staged a dramatic turnround over the last five years. It plans to issue 8m new shares through a rights issue of four new shares for every 13 held.

The new issue, which will double the free float of AUA shares and dilute the Austrian government's stake to under 40 per cent, follows the best year in the airline's 40-year history. Five years ago Austrian Airlines was in serious financial trouble after four years of losses. However, a new management team, led by Herbert Bammer and Mario Rehulka, has transformed a loss-making regional airline into a fast-growing international niche operator. Staff and operating costs have been cut by a fifth.

AUA plans to spend €1.5bn over the next five years modernising its fleet and expanding its size from 83 to 100 aircraft. It is budgeting on growth of 14.6 per cent a year in its regional airline capacity and 13.5 per cent a year in long-haul capacity. **William Hall, Vienna**

SEMICONDUCTORS

STM proposes 'poison pill'

STMicroelectronics (STM), the Franco-Italian semiconductor manufacturer, outlined proposals yesterday for a "poison pill" to protect it from hostile takeover, triggering speculation that a further reduction in the proportion of its capital held by state-controlled groups could be in the offing. The company said it intended to request authorisation to issue up to 180m new preference shares at par value, entitling the holder to full voting rights. These would be issued to STMicroelectronics Holding II BV, a joint holding company grouping the 56 per cent in STM owned by French and Italian state-controlled entities.

The move prompted speculation that one or more of these entities might be planning to sell some or all of their STM shares. "It would probably not surprise the market if they sold more," said Charles Elliott, an analyst with Goldman Sachs. "And as they sold more, the company may need protection from a hostile takeover."

The 12-year-old company also proposed its first dividend – of 16 cents a share in cash – and said it would propose a two-for-one stock split. The effective date of the split would be June 16, a day after the dividend would be payable. All these initiatives are to be presented for shareholder approval at the group's annual general meeting, scheduled for May 31 in Amsterdam. Mr Pistorio said the aim of the proposed stock split was to make STM shares more accessible to a broader group of potential shareholders and to increase trading liquidity.

Yesterday's developments came as the company, the former SGS-Thomson, announced a 16.5 per cent increase from $90.2m to $105.1m in first-quarter net income, achieved on net revenues up from $1.01bn to $1.11bn. **David Owen, Paris**

PULP AND PAPER

Soporcel offer brings Es14.5bn

A global offer of 13.78 per cent of Soporcel, the Portuguese pulp and paper group, raised Es14.5bn (€72m, $77m) yesterday. The institutional offer of 4.84m shares was more than five times subscribed, and small investors placed orders for more than nine times the 4m shares on offer in the retail tranche. The price was fixed at Es1,665 a share, at the lower end of the pre-established range but a discount of more than 13 per cent on Friday's closing price of Es1,924. The shares closed at Es1,804 yesterday. Global co-ordinators were Banco Cisf and BES Investimento, both Portuguese investment banks, and Schroders of the UK. The Portuguese state and Arjo Wiggins Appleton, the Anglo-French paper group, sold 11 and 3 per cent respectively to reduce their stakes in Soporcel to 40 per cent each. **Peter Wise, Lisbon**

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COMPANIES & FINANCE: THE AMERICAS

FINANCIAL SERVICES CITIGROUP OUTSTRIPS RESULTS OF BANKAMERICA

Big banks' fortunes diverge

By John Authers in New York

Citigroup and BankAmerica, the two largest US banks, yesterday produced dramatically contrasting results for the first quarter.

Both were formed by "mega-mergers" announced last April and completed in October (Citicorp merged with Travelers, and NationsBank merged with BankAmerica). During the first quarter they both benefited from healthy conditions for banks in the US and from the rebound in global capital markets. Both produced earnings ahead of expectations and saw their shares rise more than 3 per cent in early trading.

But the two banks' share price performance for the year to date is more revealing. Citigroup's share price has gained about 52 per cent while BankAmerica's has risen 26 per cent.

This reflects the differing strategies the two companies are taking in integrating their mergers.

BankAmerica, true to the aggressive cost-cutting style of Hugh McColl, its chief executive and the former head of NationsBank, managed a sharp reduction in costs, but this was combined – against the trend for US banking – with a decline in revenue.

Net interest income, from loans and deposits, was roughly static at $4.65bn, while non-interest income, from such activities as investment banking and fund management, fell 8 per cent to $3.22bn.

Total non-interest expense fell by more than 5 per cent to $4.45bn, thanks in part to cost savings from acquisitions NationsBank carried out before the merger with BankAmerica, while expense on personnel dropped by more than 4 per cent. The efficiency ratio, expressing non-interest expenses as a proportion of total revenues, fell over the year from 57.72 to 56.59 per cent.

As a result, operating profits, excluding merger charges, slipped slightly from $1.973bn in the first quarter last year, to $1.914bn.

Hugh McColl: merger benefits soon to show through AP

Meanwhile, revenues at Citigroup rose by 15 per cent compared with the combined companies a year earlier, to $14.5bn, thanks mainly to the 21 per cent growth in its global consumer operations. Profits, excluding charges, rose 12 per cent to $2.42bn.

Thomas Hanley, banking analyst at Warburg Dillon Read, said: "The comparison is there and it's a dramatic one. If you are too heavy-handed in terms of the expense-cutting, it's going to be ultimately done at the expense of revenue generation and perhaps even credit quality. That's the key point."

Mr McColl said the merger transition was "on track", and added that he expected the benefits of "lower costs and enhanced revenue opportunities" to boost earnings in coming quarters.

At Citigroup, consumer businesses were boosted by a 75 per cent increase in profits from North American credit cards, which benefited from the acquisition of a large portfolio from AT&T last year. Its total revenues rose by 40 per cent, on the back of a 48 per cent growth in receivables to $69bn.

Citibanking, the company's branch network, saw a 200 per cent increase in income to $75m, driven both by a 12 per cent reduction in fixed expenses and revenue growth of 7 per cent.

Beyond the consumer businesses, the bank benefited from a sharp rebound at its Salomon Smith Barney investment brokerage, which suffered more than most Wall Street firms during last year's Russian financial crisis. Its earnings for the quarter reached $648m, a 46 per cent increase over the first quarter of last year, on the back of revenues which increased from $2.9bn to $3.3bn.

Emerging markets income increased 22 per cent from the first quarter of last year, to $321m. Revenues rose 18 per cent, while expenses rose 5 per cent as the company attempted to expand. Credit write-offs increased significantly over the year, by $63m to $115m, mostly due to problems in Asia.

DTT to integrate firms into global structure

By Jim Kelly, Accountancy Correspondent

Deloitte Touche Tohmatsu, the global Big Five firm, has announced plans to integrate financially its national firms into a single organisation covering 90 per cent of its $9bn revenues within two to three years.

The firm, which stood aside from the bout of mega-mergers in the sector in 1997-98, will immediately start aligning the individual firms' rules and procedures under a new global management team.

Jim Copeland, chief executive of the US firm, has been confirmed as global chief executive after a vote of senior partners meeting in London, representing 10,000 partners and 82,000 staff worldwide in 130 countries.

"To keep pace with clients we must become even more flexible, nimble, responsive – and global," he said.

All of DTT's Big Five rivals have made moves towards global integration, with Arthur Andersen and PwC being seen as leaders. Ernst & Young and KPMG have also announced plans to integrate.

DTT sees its two-stage reforms as more pragmatic and long-lasting.

Ed Kangas, who steps down as global chief executive after more than a decade but continues as chairman of the board, said getting the individual firms aligned would lead to genuine integration and avoid the "dogfights" which have hit rivals.

DTT is likely to base its integration on the highly successful globalisation of its separate consulting practice which saw a 40 per cent rise in revenues in 1998. "It has worked brilliantly and we believe we can follow in their footsteps."

Mr Copeland comes to the office on the back of outstanding results from DTT which saw revenues rise by 22 per cent in 1998. The firm is fourth in the global revenue league above Arthur Andersen. Profits are not disclosed.

While he said he hoped organic growth would continue, he did not rule out the kind of poaching of rival practices being pursued by Arthur Andersen.

"Certainly, if there were opportunities that popped up we would consider them," he said.

In the long term, Mr Copeland said that if regulators had serious concerns about auditor independence within the Big Five then DTT could again build on its experience with consulting to create a separate but linked audit arm.

"If it's required then Deloitte & Touche Consulting is a good model," he said.

AUCS may be sold to Infonet

By Alan Cane in London

AT&T-Unisource Communications Services, the European telecommunications group owned jointly by US carrier AT&T and European alliance Unisource, is likely to be sold to Infonet Services Corporation, an international carrier based in California.

No financial details have been disclosed but the two groups have signed a memorandum of understanding and completion is expected in the third quarter.

Due diligence has to be completed and regulatory matters have to be resolved. The sale has been prompted by AT&T's decision to withdraw from the WorldPartners Alliance, which it led, in order to form a partnership with British Telecommunications.

AT&T's withdrawal prompted a change of strategy at Unisource whose owners – KPN of The Netherlands, Telia of Sweden and Swisscom – decided late last year to seek a financial partner to take a majority stake in the business. It is understood that Unisource has found a partner which will be named after the completion of due diligence.

The acquisition of AUCS by Infonet would create a global voice and data carrier capable of delivering communications services to more than 50 per cent of the world's leading enterprises. It would be a competitor of Equant, the carrier based on the airline's international network and, eventually, of the global network being established by AT&T and BT.

The picture is complicated by the fact that Infonet is owned by the three owners of Unisource together with Telefónica of Spain, Telstra of Australia and KDD of Japan. Separately, KDD and Singapore Telecom have announced plans to collaborate on a shared network.

Teck to raise C$125m via convertible debenture

By Edward Alden in Toronto

Teck Corporation, the Canadian gold and copper producer, said yesterday it would go to the Canadian capital markets with a C$125m (US$84m) convertible debenture, the first big placement by a Canadian minerals company since metals prices were hit by the Asian financial crisis in 1997.

The offering will be backed by shares in Cominco, the Canadian copper producer in which Teck owns a 39 per cent share.

The debenture will be exchangeable for Cominco shares or, at Teck's option, cash equivalent or an equivalent value of Teck subordinate voting shares.

The interest rate on the debenture will be 2 per cent above the Cominco dividend rate, or 3.28 per cent currently. The private placement is being underwritten by TD Securities and Griffiths McBurney & Partners.

Canadian mining companies have generally been unable to raise funds through corporate debt or new equity issues because of two years of weak earnings and low share prices. But most have also been paring operating expenses in an effort to position themselves for a rebound in metals prices.

Analysts said that the placement was evidence of a strengthening market for cyclical stocks such as mining and metals issues.

"This is the first company where we've seen this happen but we're going to see more," said John Lydall, analyst with First Marathon Securities.

The convertible debenture structure is particularly attractive because the company in effect monetises a portion of its assets, allowing it to raise money without assuming any additional debt load beyond a modest interest payment.

Teck's stake in Cominco is looking increasingly attractive after Cominco reported stronger than expected results in the fourth quarter last year.

Teck announced yesterday it would purchase an additional 1m Cominco shares through private transactions and would seek to acquire another 500,000.

If Teck buys more than 1m shares, the underwriters of the deal will have the option to purchase up to an additional C$25m in debentures.

Amerada in offshore Brazil move

By John Barham in São Paulo

Amerada Hess, the US energy group, yesterday began exploring for oil and gas in the deep waters off Brazil's coast, making it the first foreign company to enter the country's principal offshore oil-producing basins.

It signed a deal in February with Petrobrás, the national oil company, to explore two blocks in the offshore Santos and Campos basins for three years on a joint venture basis with Petrobrás and two other private sector partners.

Rex Gaisford, Amerada Hess executive vice president for the western hemisphere, said: "We hope to find one or more fields and each one would have rough [development] costs of $1.5bn."

Petrobrás has signed joint ventures with other foreign companies to explore or develop other oil and gas producing regions but had kept the Campos and Santos basins off-limits.

The Campos basin, off the coast of Rio de Janeiro, now produces 70 per cent of Brazil's daily oil production of 1bn barrels a day. The Santos basin, off the coast of São Paulo state, is less explored and produces gas.

Petrobrás, an international specialist in deep-water oil production, has invested $20bn in the Campos basin since 1973, which has reserves of 13.9bn barrels of oil equivalent at water depths of 3,500m.

Mr Gaisford said foreign companies with greater financial resources could eventually find enough oil to make the country self-sufficient. "The prospecting opportunities in Brazil were never really understood because it was a closed environment [until] it was opened [to foreign investment] and we were among the first people to start looking at it."

He believes Brazil would attract investments of $5bn-$10bn over five years if oil is found in commercial quantities.

Petrobrás plans to invest R$2.3bn ($1.38bn) this year to raise oil production 20 per cent to 1.2bn bpd, increasing to 1.5bn bpd in 2000. However, analysts doubt it will be able sharply to increase production alone, forcing it to rely more on joint venture agreements or return to the government areas it claimed for prospecting during the industry's liberalisation process.

Petrobrás lost its constitutional monopoly in 1995 and the government plans to reduce its holding to 51 per cent this year by selling a 30 per cent stake on local and international markets.

Mr Gaisford said Amerada's talks with Petrobras and the government lasted three years. He added he was still holding out for improvements in the contract.

Amerada wants: the three-year exploration period to be extended; wants the tax regime to be altered; and wants the right to export any oil it finds to be formalised in a contract.

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BellSouth to buy 10% Qwest stake for $3.5bn

By Richard Waters in New York

BellSouth, the largest carrier to have avoided the merger scramble in the US telecommunications industry, yesterday unveiled a $3.5bn investment aimed at plugging the gaps caused by its independent strategy.

The Atlanta-based company announced an agreement to buy 10 per cent of Qwest, a fast-growing carrier close to completing the construction of a national US fibre-optic network.

If successful, the alliance will give BellSouth, the local carrier which dominates the south-east, a way of selling long distance and high speed data services, particularly to large business customers in its home region.

The company's absence from mergers has led to speculation on Wall Street that it would eventually try to buy a long-distance carrier outright, with Sprint, the third-largest, the most likely candidate.

Yesterday's agreement with Qwest appeared to make such an acquisition unlikely. Sprint's shares continued to fall from their recent highs yesterday morning, despite a report in Germany that Deutsche Telekom, which owns 10 per cent of the US company, was in negotiations over an acquisition. One person close to Sprint poured cold water on that report yesterday.

Under their agreement, BellSouth could double its stake in Qwest to 20 per cent and name one of its 11 directors. Neither move is allowed by US regulators, however, until the company has won approval to offer long-distance services in each of the states in which it operates, a process that is likely to take some time.

While rivals such as MCI WorldCom have pursued mergers to extend their networks to all the world's main business centres, BellSouth has stood aloof. "We've always believed that you can create an alliance where you don't have to own everything – the globe is a big place," said Duane Ackerman, chairman.

BellSouth is to pay $94.50 a share for 37m shares in Qwest, a 15 per cent premium to its closing price at the end of last week. Philip Anschutz, the oilman behind the Qwest start-up, will receive $1.57bn, cutting his stake to 39 per cent.

The deal does not rule out an eventual takeover of Qwest, either by BellSouth or another company, said Joe Nacchio, chief executive of the Denver-based carrier. The limit on BellSouth's holding disappears if Qwest receives an offer from another company.

NEWS DIGEST

AUTOMOTIVE PARTS

Dana Corporation lifted 15% by firm US demand

Strong US demand helped Dana Corporation, the automotive parts supplier, to a 15 per cent increase in first-quarter profits, to $162m. Earnings per share were up from 84 to 97 cents, with sales overall increasing by nearly 5 per cent to $3.4bn. The news came as Dana said its board had authorised a $350m stock buy-back plan, to run over the next 12-18 months. The results were roughly in line with analysts' expectations, but Dana shares jumped sharply, by $4⅜ to $51⅞, on the combined news.

Dana said its South American operations had remained in the black, and its European business had benefited from recent acquisitions and performance improvement, in spite of the sluggish economic conditions. Dana also joined the list of companies reporting some advance in Asia. "Demand in Asia-Pacific has shown some recent improvement," said Joe Magliochetti, chief executive.

The company saw a sharp improvement in margins in the aftermarket business, to around 10 per cent, and its overall operating margin was up from 8 to 8.3 per cent. **Nikki Tait, Chicago**

MOTOR INDUSTRY

GM, Toyota in 'clean car' deal

General Motors and Toyota have signed a five-year agreement jointly to develop new propulsion systems for cars of the future. The agreement, which covers dozens of advanced vehicle projects including fuel cell cars, "could define the future of the automobile", said Harry Pearce, GM's vice-chairman, in Detroit after signing the deal with Toyota's research and development director, Akihiro Wada.

Several hundred engineers will be committed to the joint development projects, which will include all-electric "city" cars and "hybrids" – vehicles using petrol or diesel engines in tandem with electric motors. The collaboration between GM, the world's biggest vehicle maker, and Toyota, Japan's largest, comes less than two months after rival DaimlerChrysler unveiled an environmentally clean fuel cell car based on the Mercedes-Benz A-Class, which co-chairman Juergen Schrempp said would enter commercial production in 2004. **John Griffiths, London**

ELECTRONICS

Rockwell beats forecasts

Shares in Rockwell rose by $2⅜ to $51⅞, after the electronic controls and communications group beat analysts' expectations with a 17 per cent increase in second-quarter profits, to $143m, with earnings per share up 23 per cent to 74 cents. Forecasts had averaged 70 cents a share. Rockwell said the automation division's sales had been weaker, because of problems in Brazil and lower sales in the motor business, but operating profits were still up from $147m to $163m. The avionics/communications side saw sales rise 14 per cent, and operating earnings 58 per cent, to $123m.

Adding to the market cheer was Rockwell's forecast that it was on track to meet an earnings-per-share target of $2.90-$3.00 for the full year, and expected "to be near the high end of that range". **Nikki Tait**

MERGERS

KPMG Canada chief quits

Spencer Lanthier, the chairman of KPMG Canada who negotiated a deal with rival Big Five firm Arthur Andersen for a controversial merger, has stepped down from his post following the partners' decision to scupper the agreement and accept terms offered by KPMG International. Also stepping down is D. Hugh Bessell, deputy chairman.

Mr Lanthier, 58, was widely criticised for agreeing terms with Arthur Andersen and failing to keep partners informed. He will be replaced by William MacKinnon as interim chairman to "oversee the continued revitalisation of KPMG Canada's relationship as a full member of the KPMG International organisation". While KPMG International said there would be "no reprisals" after the failed merger, it had become clear that Mr Lanthier's position was under threat. A statement said both men were leaving because of a combination of factors including "personal reasons". **Jim Kelly.**

NETWORK SECURITY

Check Point income up 30%

Check Point Software Technologies, the Israeli network security group, said yesterday that strong growth from all products and geographical regions helped to boost net income 30 per cent in its first quarter. Net income jumped from $15.1m, or 38 cents a share, to $19.7m, or 49 cents. Revenues climbed 37 per cent to $43.7m over the same period. In early trading on Nasdaq, Check Point shares jumped more than 8.5 per cent to $34.

"This was a good solid quarter," said Eric Zimits, analyst at Hambrecht & Quist, the US investment bank. "Check Point executed well where a lot of companies have stumbled, and this is probably a good opportunity for them to continue expanding market share." Check Point is the world leader in network security products.
Avi Machlis, Jerusalem

Pfeiffer becomes a victim of his own success

By Louise Kehoe in San Francisco and Paul Taylor in London

In any other industry, a chief executive who increased sales tenfold in less than a decade might reasonably expect to win admiration, if not plaudits.

But for Eckhard Pfeiffer, former Compaq chief executive who was forced to resign over the weekend, along with Earl Mason, chief financial officer, the reality is somewhat different.

Compaq's revenues have grown from $3.3bn in 1991 when Mr Pfeiffer took over as chief executive, to $31bn last year as the Houston-based group rode the IT spending wave. In the process Compaq overtook International Business Machines to become the world's largest personal computer manufacturer.

More recently, under Mr Pfeiffer's close direction, Compaq aimed to become a broad global computer group following the acquisitions of Tandem Computers and Digital Equipment – both within the past 18 months.

Ultimately, it was Wall Street's loss of confidence in Compaq's senior management after the company issued a shock profits warning 10 days ago that led to the boardroom coup. But the seeds of Mr Pfeiffer's downfall may actually have been sown in his own success.

Mr Pfeiffer knows the PC sales business very well. Indeed, when he was picked by Ben Rosen, Compaq chairman, to become chief executive, the company was floundering in the US, hit by competition from manufacturers of low-cost "clone" PCs. Yet in Europe, where Mr Pfeiffer was in charge, Compaq was thriving.

Within a year of taking the top job, Mr Pfeiffer had put his experiences in Europe to good use. In June 1992 he made the crucial decision to go after market share by slashing prices on existing systems and introducing a new line of low-cost PCs.

The strategy paid off. Although the move marked the beginning of an era of PC price wars, Compaq gained market share and cut costs enabling it to outflank rivals such as IBM, Digital and Hewlett-Packard.

However, Compaq soon faced fierce new competition from Dell Computer which pioneered a "direct sales" approach in the PC market, selling computers via telephone sales agents and later via the internet. Despite the cost advantages of direct sales, Mr Pfeiffer was reluctant to abandon the thousands of third-party resellers on whom Compaq had always relied.

Recently, Compaq adopted a modified direct-sales model in which it generated orders for PCs via its web site but fed those orders to resellers for fulfilment. The plan was "too little, too late", critics charged.

Compaq's indirect sales model has made it difficult for the company to compete with Dell, and other direct sellers, on costs.

Another drawback, which emerged a year ago, was that without a direct link to end-users, Compaq could not accurately forecast demand.

This was highlighted early last year when Compaq shocked the industry by disclosing that it had a huge inventory overhang, which took six months to dissipate.

Mr Rosen, while praising Mr Pfeiffer's achievements over the past seven years, said the company's performance had suffered as a result of slow decision-making. The biggest decision facing Mr Pfeiffer's successor may be how to unravel the company's complex distribution systems so that it can compete more adroitly with direct PC sellers.

But Compaq is also in catch-up mode in the electronic business arena. Perhaps distracted by the complex task of integrating Digital's operations, it has been slow to respond to a fundamental shift away from PC-Server, or distributed "client server" networks, towards the "internet computing" mode in which desktop computers link to a central database.

Meanwhile established companies such as IBM and HP, as well as many newcomers, are rapidly exploiting the technology shift precipitated by the huge growth of internet use.

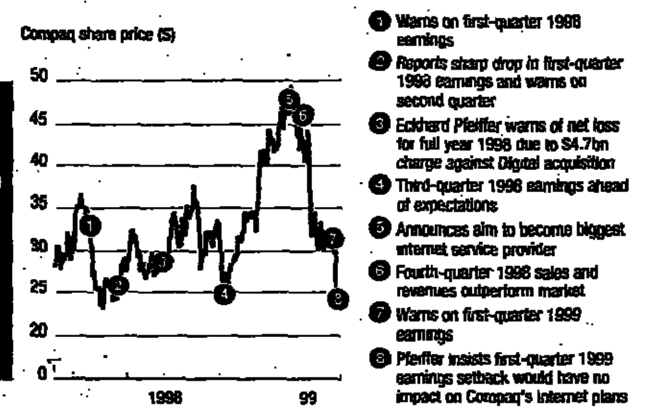
Compaq has failed to position itself clearly as a supplier of e-business systems, complained Steve Milunovich of Merrill Lynch during a Compaq conference call with analysts yesterday. Responding, Mr Rosen said that Compaq had a unique breadth of technologies and products for e-business, but had so far failed to take full advantage of these assets.

The roots of Compaq's recent problems may lie in its ambitious expansion, through acquisitions. Despite repeated reassurances from both Mr Pfeiffer and Mr Rosen, there is a widespread industry perception that the integration of Digital, in particular, is proving much more complex than Compaq envisaged.

Ironically, having "enthusiastically and unanimously endorsed" Mr Pfeiffer's expansion strategy, Compaq's board of directors determined over the weekend that "new leadership" was now needed to manage the increasingly complex business created by these acquisitions. For Mr Pfeiffer, it must seem that sometimes you just cannot win.

Rollercoaster ride

Eckhard Pfeiffer



Source: Datastream/ICV

Rosen – the chief with his finger on the pulse

As a former financial analyst, turned venture capitalist, Benjamin Rosen knows who calls the shots when companies deliver unwelcome surprises – Wall Street.

Neither has the 65-year-old financier shirked his responsibilities as chairman of Compaq, a role he has held since 1983.

Last weekend, he presided over the boardroom coup which led to the resignation of Eckhard Pfeiffer. Eight years ago it was Mr Rosen who installed him, after removing founder Rod Canion as chief executive because of growing disappointment over the group's PC sales.

However, in recent years he has kept a low profile, despite sitting on the boards of several technology start-ups he has helped to fund and being vice-chairman of the board of trustees at the prestigious California Institute of Technology.

As a managing partner of the Sevin Rosen venture capital group, he helped found numerous other high-tech companies including Lotus Development, now part of IBM. Currently, he is engaged in the formation of a new internet search and query service called "Ask Jeeves". However, the veteran industry executive said he was happy to be returning to the front line.

Later this week he will face shareholders at Compaq's annual meeting in Houston. As the owner of 5.45m Compaq shares, he will no doubt share their concerns that the stock is trading near its 52-week low.

Perhaps the key question however, is whether any new chief executive will be willing to work under a chairman who already has two notches on his belt.

Depressed farm sector hits Case

By Nikki Tait in Chicago

Low commodity prices and depressed conditions in the farm sector worldwide caused Case, one of the biggest US suppliers of farm and construction equipment, to fall into the red during the first quarter of 1999.

The Wisconsin-based group reported a $48m loss, with sales down 13 per cent at $1.2bn. A year ago, Case's first-quarter profit was $69m.

Case remained cautious about the outlook for the rest of 1999. It continued to expect worldwide sales of farm equipment to be down by 8-10 per cent, with the important Latin American market slumping by about 10-15 per cent.

In construction, Case predicted stable demand in North America, with some benefit from infrastructure spending generated by the US Highway Bill, but a modest decline in Europe. Asia-Pacific might stabilise, but the Latin American outlook had "dampened considerably" due to Brazil's problems.

Nevertheless – as with Caterpillar last week – Case's results were still significantly better than many analysts had believed. According to the First Call research firm, forecasts for Case were about 85 cents a share loss, against the 68 cents actually posted. Case shares, which had already benefited from improved sentiment towards cyclical stocks, rose $1⅛ to $34¼.

Case said that the Brazil problems alone had dented earnings by about $15m, or 16 cents a share. Retail sales, in unit terms, of farm equipment fell by 14 per cent in the quarter, while wholesale sales slumped by 30 per cent, as the company cut back production and pushed out less machinery to dealers. Case estimated that global production of agricultural equipment fell by about 35 per cent, year-on-year, in the first quarter.

In construction, revenues were 4 per cent higher, with the solid position in North America failing to offset problems elsewhere. Sales in Latin America were 46 per cent lower, and Europe saw a "modest" decline.

NOTICE TO THE HOLDERS OF
Telecom Argentina STET-France Telecom S.A.
U.S.$100,000,000 Medium-Term Notes Series E Due May 5, 2005
ISIN No. XS0076226942

NOTICE IS HEREBY GIVEN that for the interest period November 5, 1998 to May 5, 1999 the Series E Notes will bear interest at a rate of 8.23641%. Interest payable on May 5, 1999 will amount to U.S. $41.18 per U.S. $1,000 Note.

U.S. Bank Trust National Association, as paying agent will make payment on such date to the person in whose name the Series E Notes are registered at the end of the fifteenth day (the "Record Date") next preceding the May 5, 1999 interest payment date.

Telecom Argentina STET-France Telecom S.A.

Dated: April 20, 1999

US$150,000,000
Espirito Santo Financial Holding S.A.
Floating Rate Notes due 2000

Notice is hereby given that for the three month period from April 20, 1999 to July 20, 1999 the Notes will carry an interest rate of 5.5% per annum. The interest amount payable on the interest payment date, July 20, 1999 will be U.S. $139.03 for Notes in denominations of U.S. $10,000

By: The Chase Manhattan Bank London, Agent Bank
April 20, 1999
CHASE

AAPT rejects hostile bid by C&W Optus

By Gwen Robinson in Sydney

AAPT, Australia's third largest telecommunications company, yesterday rejected a hostile takeover bid by its larger rival, Cable and Wireless Optus as "inadequate and naive".

C&W Optus, which is 52.8 per cent owned by Cable and Wireless of the UK, listed last year. The company announced last Friday it would offer A$5 a share for AAPT, valuing the company at A$1.49bn (US$984m).

AAPT said several of its largest institutional shareholders had confirmed they would not accept CWO's offer price. Lee Casey, chairman, said he was "astounded" by the "naivety" of the offer.

"This opportunistic $5 bid substantially undervalues the company's shares; it ignores its growth potential and doesn't include any premium for control... We are confident the proposed offer will not be successful at the current offer price."

The board had advised shareholders to take no action pending receipt of CWO's formal offer documents.

The offer would also require regulatory approval from the Australian Competition and Consumer Commission, the government's antitrust watchdog, among other regulators, Mr Casey said.

Analysts last night said CWO would have to raise its offer for the bid to be considered seriously.

But CWO insisted that its offer was fairly priced, providing a 13.9 per cent premium to AAPT's average share price this year and valuing the company at 24 times pre-tax earnings, compared with a sector average of 14.5 times. AAPT's shares yesterday jumped 9 per cent to A$5.45.

On Friday, CWO had acquired a strategic 10.6 per cent stake in AAPT at A$4.85 a share, from Singapore Telecommunications, which confirmed it had cut its AAPT stake to 2.6 per cent from 17.5 per cent for a total of A$217.3m.

Chris Anderson, CWO chief executive, said CWO and AAPT were "highly complementary" and should be able to offer very competitive prices locally and internationally.

CWO, with a market capitalisation of more than A$13bn, is Australia's second largest telecoms company. AAPT was founded by Australia's domestic news agency, AAP Communications, whose main shareholders are John Fairfax Holdings and News Corp.

Indonesian groups aim to tie up restructuring agreements

Leading companies, including Bakrie and Astra, look for creditor approval of debt rescheduling, writes Sander Thoenes

Corporate restructuring is about to come to a head in Indonesia. After months of negotiations and speculation, the country's leading companies are hoping to gain approval for their restructuring plans and to cement debt rescheduling over the next few weeks.

Bakrie & Brothers, the diversified conglomerate, hopes to become the first large Indonesian company to obtain creditor approval today for a restructuring of $1.15bn in debt. It will be followed by Astra International, the car maker, which puts its proposal to a vote later this month.

A third deal is a rescheduling of $409m of the $832m owed by Chandra Asri, the petrochemical company partially owned by Marubeni of Japan. Creditors have agreed to a six-month rescheduling but hope to approve a three-year suspension of principal payments before the next payment, due late August.

Bakrie says it would ask its creditors to swap the full debt for equity, offering 80 per cent of a holding company that will hold five of the least troubled subsidiaries, plus 20 per cent of the remainder of Bakrie & Brothers.

Astra hopes to reschedule $1bn and Rp1,000bn ($115.6m) in debts, divided in three tranches with maturities of three to seven-and-a-half years.

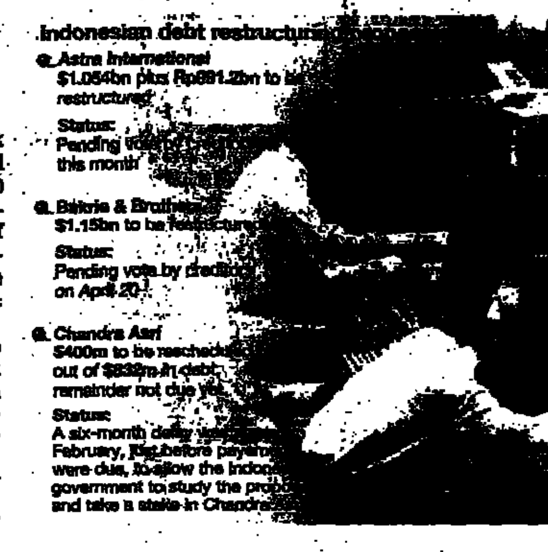
The portion with the longest maturity would come with detachable warrants for 10 per cent of Astra's shares, and be tendered to creditors first.

"I'm hopeful they'll both get done," said one executive of a western bank negotiating with Astra and Bakrie. "They would be the first big ones to get done. Hopefully they would set a trend."

Many bankers believe Bakrie will get a deal first. "Astra is in much better shape than Bakrie," said one European debt trader. "But Bakrie really has the banks over the barrel. There is so much Bakrie debt out there."

But Bakrie may run into difficulties with bankers who complain that the proposal offers little information on the value of the subsidiaries.

The new holding company would include Bakrie Sumatra, the profitable plantation company, as well as Bakrie Communications, Bakrie Kasei, Bakrie Aruthmin and Bakrie Electronics.



Some creditors say they have persuaded Bakrie to include a larger portion of shares in Bakrie Sumatra and still hope to include Bakrie Pipe, which makes pipes for the oil industry.

Astra's creditors, meanwhile, may yet hold out for more as they believe the company has understated its revenues from the plantation subsidiary Astra Agro Lestari. But several lenders, including the Japanese, who had objected to the original proposal offering less interest payment and set aside funds for buying back bonds from smaller creditors, said they had been persuaded when Astra sweetened its offer for a second time.

"What is needed is to get enough bankers on board to pressure the others," a western banker said. "If they don't co-operate we can do a 'pre-packaged bankruptcy,'" he said, referring to a new clause in the bankruptcy law that allows debtors to apply for suspension of payment. A simple majority of creditors holding two-thirds of the debt can vote on a debt restructuring plan that a judge can declare binding on all creditors.

On paper, debt restructuring offers relief to the companies. While it could mend relations with banks, it is unlikely to make much difference to cashflow in practice. Neither Astra nor Bakrie have been paying interest or principal.

They need loans to survive in the long run although bankers say it will take several years before banks will resume lending, particularly the Japanese, which Astra has relied on.

Bakrie, may have a much harder time persuading anyone to lend again as it borrowed far too much and repaid in assets that, debt traders say, will return 15 cents to the dollar at best.

While Astra and Bakrie could be models for other restructuring deals, several bankers would rather not see this happen. Both deals highlight that creditors are more willing to take a hit than they would care to admit in public.

Japanese banks, in particular, prefer the kind of rescheduling arranged for Chandra Asri, which will stay current on interest payments at least to its foreign lenders. It may defer part of the interest payment to Indonesian state banks in return for shares in the company.

Daewoo to cut debts with shipbuilding sale

By John Burton in Seoul

Daewoo, South Korea's second largest chaebol or conglomerate, is selling one of its most profitable businesses, the shipbuilding division of Daewoo Heavy Industries, as it struggles to halve its debt of Won60,000bn ($49bn).

However, the proposed sale of the shipbuilding division to Mitsui and other Japanese shipbuilders for an estimated Won5,000bn comes as ship orders weaken due to a cyclical downturn in the industry and has raised concerns whether Daewoo will be able to meet its target of selling Won9,140bn in assets this year.

While Daewoo is also putting profitable units on the block – it is hoping to sell two Hilton hotels in Seoul and the resort town of Kyongju for Won300bn, Daewoo Telecom and shares in other telecom companies for Won600bn, and a 40 per cent stake in a leading insurer, Kyobo Life Insurance – questions remain whether the asset sales will be large enough to solve Daewoo's debt problems.

Analysts believe its debts may be higher than stated since some borrowings by Daewoo's nearly 600 overseas businesses might not be included in the group's consolidated accounts.

This could prove to be an obstacle to the asset sales since buyers might be cautious about hidden overseas debts, which has been one factor delaying the swap of Daewoo Electronics for Samsung Motors, according to Kim Hun-soo, research head at Merrill Lynch in Seoul.

Nonetheless, government officials yesterday gave a cautious welcome to Daewoo's proposals. The restructuring plan "outlined the direction it has to take. It is very possible for Daewoo to complete" it, said Lee Hun-jai, the chairman of the Financial Supervisory Commission, which is in charge of chaebol reform.

Similar restructuring efforts offered by Hyundai yesterday received a more sceptical reaction since there were few details.

Hyundai said it would concentrate on five business sectors, including cars, construction, electronics, chemicals and financial services, and reduce the number of subsidiaries to 20 from 49.

It projected asset sales of Won4,000bn would include eight affiliates of the Kia Motor group, which it recently acquired. It also plans to raise Won10,000bn through rights issues and at least Won5,000bn through equity and asset sales to foreign investors.

But the announcement follows recent comments by the president of Hyundai Motor, who admitted that Korea's largest carmaker was having difficulty in attracting foreign investment to help finance its takeover of insolvent Kia.

The group's financial problems have been a stumbling block in its negotiations to acquire LG Semicon under a state-proposed merger to cut overcapacity in the memory chip sector.

Hyundai has been offering a much lower acquisition price than demanded by LG and a meeting yesterday between the Hyundai and LG chairmen failed to resolve the issue. Hyundai is offering an initial payment of Won1,000bn for LG Semicon plus a share in earnings up to Won1,000bn for the new chipmaker over the next three years against an asking price of Won3,200bn by LG.

LG said the profit-sharing scheme might be worth nothing if the chipmaker performed poorly under Hyundai's management.

Dasa aims for $1bn in Japan

By Michiyo Nakamoto in Tokyo

DaimlerChrysler Aerospace (Dasa) is aiming to increase sales in Japan over the next decade to about $1bn from Y15bn ($127m).

"We expect a further increase in turnover, mainly due to the success of Airbus," said Stefan Weingartner, president of DaimlerChrysler Aerospace Japan. "We are convinced that compared to our worldwide turnover and [considering] the size of the Japanese economy, we have much more opportunities here in Japan."

Dasa's ambitions in Japan are in line with the DaimlerChrysler group's goal to increase turnover in the Asian markets from 3.3 per cent of overall turnover to between 20 and 25 per cent.

Mr Weingartner emphasised that alliances with Japanese companies would be critical in achieving Dasa's goal of increasing sales in Japan.

"In order to achieve this goal we want to strengthen and expand partnerships," he said.

Although the Japanese aerospace industry may not be ready for western-style mergers and acquisitions yet and is likely to see consolidation among Japanese companies first, "we certainly do not exclude acquisitions" as a means to increase sales in Japan, he added.

The company's sales total around Y15bn, of which the bulk comes from sales by Airbus, in which Dasa has a 37.9 per cent stake.

Airbus has substantial potential to increase sales in Japan, where its market share is only 15 to 20 per cent, against a worldwide share of about 50 per cent, Mr Weingartner said.

While part of the problem stemmed from Airbus's lack of a high-capacity aircraft, which is widely used in Japan, political influence "is also an issue", he said.

Airbus is also looking to increase co-operation with Japanese partners, particularly by seeking Japanese participation in its current and new programmes.

In the defence market, Dasa lags its US competitors in the Japanese market for historical reasons.

But the Japanese defence procurement market is likely to become much more open to competitive bidding as a result of the Defence Agency's need to buy the best products for the best price, Dasa believes.

PAL directors meet amid confusion

By Tony Tassell in Manila

The outlook for the ailing Philippine Airlines became further clouded yesterday by the continuing drama over control of the national flag carrier.

Lucio Tan, the airline's majority shareholder, called a special board meeting of PAL directors yesterday amid mounting speculation over a power struggle between the Filipino-Chinese tycoon and a new management advisory team recruited from Cathay Pacific.

Local press reports suggested the meeting was called to ease the five-man advisory team away from control of the airline.

At the meeting Mr Tan pledged to put together a group of undisclosed investors to provide a $200m cash injection for PAL, which is facing a $2.2bn debt burden, as part of its revival plan. He offered to place $100m of the cash immediately in an escrow account, subject to undisclosed conditions.

He also said he had resumed the position of chief executive of the airline – a role he relinquished in January to gain the support of creditors for the revival plan. Mr Tan would now devote his "full attentions and efforts" to the airline's rehabilitation, said PAL.

It is not clear where this leaves the management advisory team or Luis Juan Virata, the acting chief executive. Peter Foster, head of the advisory team, said he had not been notified of any changes in management.

On the rift between Mr Tan and PAL's advisers, Joseph Estrada, the Philippine president, said: "If there are rifts, we don't want anything that will be disadvantageous to the operations of PAL. But I think they will be resolved if there are any.

"Mr Tan... was the one who entered into the agreement with the management team. If he feels that there is a violation of the agreement, then it is within his prerogative to terminate [the agreement]," he said.

USA funds raise Japanese exposure

By Gillian Tett in Tokyo

US mutual funds have sharply increased their exposure to the Japanese equity market in recent weeks by purchasing large volumes of small company shares.

Data collected by AMG Data Services, a US research company, show that net purchases of Japanese equity in the second week of April surged to $268.9m, five times the levels seen in the previous three weeks.

This is sharply higher than the pattern seen over the past year, when US mutual funds were either selling Japanese equity, or buying less than $30bn a week. It is also the highest figure seen in the past three years.

Analysts said activity by US mutual funds represented only a fairly small proportion of the total purchases by foreign investors, which has recently been on a rising trend.

Between April 3 and April 9, the most recent period for which data is available, foreign investors spent Y362bn ($3bn).

However, since the US mutual fund data are unusually timely, and have often been a good guide to broader trends in the past, they are closely watched by the markets.

Jonathan Allum, strategist at ING Barings said: "The interesting thing about these figures is that we have seen net outflows from Europe, but net inflows into Asia – I think there is a trend."

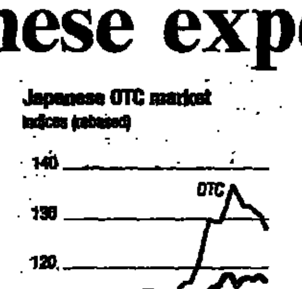
The data provide one of the first concrete signs of the degree to which foreign investment funds have been pouring into the over-the-counter – or small companies – market.

The figures collected by AMG showed that more than 90 per cent of the US mutual fund money invested in the second week of April in Japan was placed in funds with a bias towards small companies.

This sudden foreign interest has already had a sharp impact on the OTC market, which has startled many economists by doubling in value in the past six months, making it one of the best performing small company sectors in the world.

Japanese OTC market

Indices (rebased)



Source: Datastream/ICV

The Nikkei 225, the key stock market indicator, by contrast, has risen only 28 per cent in this period.

This surge could reflect the fact that the OTC market has fallen faster and further than the Nikkei in recent years, since it is less prone to political manipulation.

However, it may point to a broader economic trend. In particular, foreign investors hope that OTC stocks will be better placed to take advantage of Japan's economic reforms than the large companies, since most smaller companies are more entrepreneurial and less weighed down by the country's corporate tradition.

Bill Wilder, head of Fidelity, the US mutual fund group in Japan said: "The OTC market has done extremely well in the last year – our own small companies fund is up 75 per cent over the last year. That is attracting people."

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De Beers: Towards the Millennium

Points from Nicky Oppenheimer's 1998 Chairman's Statement

On the eve of the Millennium, De Beers, one of the world's oldest and largest mining companies, can look back on more than 100 years of growth and achievement during which it secured the stability of the industry and a remarkable expansion of diamond demand throughout the world.

On the cusp of a new century De Beers is fashioning a strategy to enable it to respond creatively to future challenges. It will be guided by its core principles: its commitment to South Africa and to its partners in Southern Africa; its striving for stability in the diamond industry for the benefit of all its stakeholders; and its determination to remain in all respects the world's leading diamond company.

For the diamond industry the past year was one of the most difficult in recent memory, as a result of the lingering recession in Japan and global economic uncertainty. De Beers' response was to cut sales by 28 percent to US$3,345 million to ease the pressure on the pipeline where stocks of rough and polished were reduced by US$1 billion. This remedial action, which showed again why De Beers remains central to the health of the industry, carried a short term cost to the company: a 40 percent drop in De Beers' own earnings; a US$377 million increase in De Beers' diamond stocks and a 22 percent dividend cut.

By the year's end De Beers' restraint was rewarded by an improvement in the market. The decline in retail sales in Japan and the Far East had been partially offset by vigorous United States demand as well as growth in the European market, and the New Year has also brought signs of firming demand in the Far East.

On the supply side, the three-year extension of the Russian sales contract with De Beers and the agreement with BHP to market 35 percent of the run-of-mine production from the new Canadian mine, Ekati, were welcomed by the diamond industry. Despite the growing number of new entrants attracted to diamond mining by the stability afforded by single channel marketing, the De Beers Group in South Africa, Botswana and Namibia continues to produce nearly 50 percent by value of the world's gem diamonds. This, together with its ownership of the most advanced diamond technology anywhere, will guarantee its continued dominance in a more competitive environment.

In positioning itself for the future as an independent, dedicated and integrated company under its own management team, De Beers took a major step with its operational separation from Anglo American Corporation and the move to a new corporate headquarters at Crown Mines, Johannesburg. This global centre of excellence is now a matter of pride for South Africa and a showcase for the knowledge and technical expertise which has given De Beers its leadership position in the world-wide diamond industry.

A R60 million training programme to expand and develop its South African skills base is one of the ways De Beers will secure the future of diamond mining in the country in which the modern diamond industry was born. Other initiatives include a series of imaginative projects to extend the life and employment of its older mines well into the next century and a willingness to invest in small mines and joint ventures as a means to expand black ownership and operational involvement in the industry. De Beers Group operations in Southern Africa include some of the lowest cost mines in the world. The expansion project to double Orapa's capacity, and the completion at Jwaneng of the most automated sorting and recovery facility in the world will maintain this competitive advantage.

As the world prepares to commemorate the Millennium, De Beers will announce several projects to promote the diamond as the ideal Millennium gift. One of these, using De Beers' own unique branding process, will be a limited edition of top quality, individually branded and numbered De Beers Millennium diamonds. De Beers, like millions of diamond consumers around the world, knows that Millennia come and go, but a diamond is forever.

The full Chairman's Statement and the Annual Reports of De Beers Consolidated Mines and De Beers Centenary for the year ended 31st December 1998 have been posted to registered shareholders. Copies may be obtained by writing to the London Secretaries at the address below. The Chairman's Statement may also be accessed on the Internet at http://www.edata.co.za.

DE BEERS

A DIAMOND IS FOREVER

De Beers Consolidated Mines Limited (Incorporated in the Republic of South Africa). London Office: 19 Charterhouse Street, London EC1N 6QP. De Beers Centenary AG (Incorporated under the laws of Switzerland). Head Office: Langensandstrasse 27, CH-6000 Lucerne 14, Switzerland.

LEISURE PRICE WAR THREATENED AS A RESULT OF AIRTOURS PROPOSED COUNTER-BID FOR FIRST CHOICE

Thomson will defend market position

By Scheherazade Daneshkhu, Leisure Industries Correspondent

The prospect of a UK holiday price war loomed yesterday as Thomson Travel Group warned Airtours, the UK's second largest tour operator, that it would defend its position as the UK's largest package holiday company.

Airtours is preparing to mount a hostile counter-bid for First Choice, the UK tour operator that has agreed a £1.5bn ($2.4bn) merger with Switzerland's Kuoni.

A successful bid would give Airtours 34 per cent of the UK package holiday market, against Thomson's 27 per cent. However, Thomson said yesterday: "We have been market leader in the UK for 25 years and we have no intention of losing that position."

The company refused to elaborate but it is believed that Thomson is considering flooding the market with holidays or launching a counter-bid for First Choice to thwart Airtours. A bid by either Airtours or Thomson for First Choice would almost certainly trigger competition concerns.

Thomson has in the past used price wars to maintain its market position, most notably in the mid-1980s when it was challenged by the International Leisure Group, which later collapsed.

However, analysts said Thomson might find it harder to spark a price war – and risk its profitability – now it is no longer owned by Thomson Corporation, the Canadian publishing group, after its London stock market flotation last year.

A price war could also see a return to the volatile trading conditions which once characterised the package holiday industry.

The industry has been rebuilding profits by keeping a tight rein on supply since summer 1995 when over-supply of holidays and subsequent deep discounting led to low margins and reduced profits.

Thomson's statement came the day after First Choice also warned Airtours not to launch a hostile counter-bid and risk destabilising the UK holiday market.

Airtours is believed to be awaiting Kuoni's offer document, expected later this week, before launching its counter bid. This is expected to be worth 220p-230p a share, valuing First Choice at £744m-£778m.

ABF planning £448m pay-out

By John Willman

Associated British Foods, the group that makes Kingsmill bread, Silver Spoon sugar and Twinings tea, proposes to return £448m ($721m) to shareholders through a special dividend of 50p a share.

The pay-out – about 12 per cent of its market capitalisation – represents a change of policy for ABF which had accumulated a £1.5bn cash pile in preparation for making a large acquisition. The shares rose 17½p to 443½p after the announcement yesterday.

Garry Weston, the reclusive chairman and chief executive whose family controls the company, said prices of larger listed food companies were too high to offer an adequate return for shareholders. But with nearly £1bn still in cash and the capacity to borrow another £1.5bn, ABF remained able to pursue suitable opportunities.

"We need to retain the firepower to make further significant acquisitions," he said.

Mr Weston also announced his second son George would be joining the board as director responsible for bread operations following the departure of David Garman to become chief executive of another unnamed company. All three sons work in the business and the announcement was seen as an indication that George Weston will eventually succeed his father as chairman.

Mr Weston Snr, 71, is to stand down as chief executive on June 1 in favour of Peter Jackson, head of the British Sugar subsidiary, but intends to continue as executive chairman.

Withington, the family trust which owns 50.9 per cent of the shares, said it would reinvest some of the proceeds of the special dividend in buying another 3 to 4 per cent of the ABF shares. This would enable the group to issue new equity to provide share incentive schemes for managers without the family losing control.

Following the special dividend, the share capital will be consolidated on the basis of 88 new shares for every 100 existing shares. Credit Suisse First Boston was adviser to ABF on the special dividend.

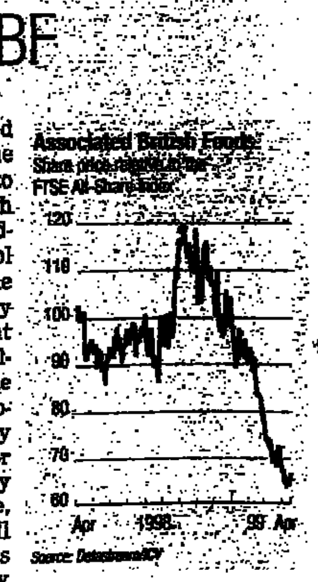
Yesterday's announcements came as ABF announced pre-tax profit for the first half to February 27 of £109m after a £74m charge following the adoption of a new accountancy standard on the value of fixed assets. Pre-tax profit before the exceptional charge was £183m (£193m).

Earnings per share were 5.8p (14.5p) and the dividend is held at 4.25p.

Garry Weston: ready to make further acquisitions Colin Beere

COMMENT

ABF



Like Unilever, Associated British Foods was a prime candidate to return cash to shareholders. Even though ABF had stepped up spending on acquisitions, a cool £1.2bn was still sitting in the bank at the end of February – similar to the sum at interim stage last year. Falling interest income and the stubbornly high cost of European acquisitions finally removed the last excuses for keeping so much money handy. ABF will, in any case, still be able to spend well over £2bn on acquisitions after handing back nearly £450m. Shrinking the equity base will also give a little upward twist to earnings per share, just when large tranches of the business – bakery, sugar and animal feed – continue to wallow. The few growth areas, such as Primark in clothes retailing, are too small to offset this. ABF's uphill struggle is partly beyond its control – the pound's strength against the euro, for instance. But this still leaves ample scope for Peter Jackson, the new chief executive, and chairman Garry Weston's son George to make their mark.

Kingfisher/Asda

The fog has not cleared. What – other than a desire for scale – is behind Kingfisher's £5.4bn bid for supermarket retailer Asda? Kingfisher argues it needs deep pockets to be able to compete with successful global retailers. Access to Asda's chunky cash flows should certainly increase its spending power. Nonetheless, it is not clear what else it gets from the combination. True, there are purchasing synergies to be obtained from the £4bn of common products sold. But squeezing suppliers is not a long-term strategy. And it is hard to see why manufacturers should agree to price-cuts, since the merger will not necessarily lead to more goods being purchased.

Sir Geoffrey Mulcahy, Kingfisher's chairman, says the real purchasing benefits will take longer. These will come from Kingfisher offering suppliers a pan-European distribution channel through its store chains. That might be true, but it is not clear where UK-based Asda fits into this strategy. Given the rationale, it is not surprising Kingfisher's all-share offer is now worth only 180p – essentially where Asda's shares were before the deal was announced. If European supermarket groups such as Carrefour have any interest in the UK market, now is the moment.

Angling to build a retailing behemoth

Peggy Hollinger examines the forces driving the Asda-Kingfisher merger

Buried amid thousands of bland words about how the merger will create a world-scale retailer is the real reason why Kingfisher and Asda want to join forces. It will allow Sir Geoffrey Mulcahy, Kingfisher's chief executive, to further his ambition to dominate global retailing.

But not in food – instead, it is in the electricals and DIY businesses, which he has been expanding internationally at a fierce rate in recent years.

"The group will have significantly strengthened financial resources to match more closely those of the largest global competitors," the companies said, publishing details of the planned merger. With net assets of £5bn ($8bn), operating cash flow of more than £1.2bn and gearing below 20 per cent, the combined business would have the muscle to "participate in the continuing consolidation of Europe's DIY and electricals markets".

Bringing in Asda's supermarkets as a cash cow would strengthen Sir Geoffrey's firepower. The deal puts him firmly in the driving seat – Kingfisher shareholders would control two-thirds of the group as a result of the all-share deal.

Yet the merger would also allay fears among Asda's investors that the number three in a mature industry – physically restricted by a tight planning regime – could be running out of steam. Although the group announced encouraging like-for-like sales rises of 4.7 per cent for the second half to April 10, this growth is being generated by its non-food offering.

Investors seem to have accepted the logic of a merger, even those who consider the terms of the deal somewhat mean from Asda's point of view.

"The returns Kingfisher will make out of Asda are about 7.5 per cent in year one, after attributing a share of the savings to Asda," said one shareholder with a substantial stake in both companies. "It just shows they could have paid more if they wanted."

Asda and Kingfisher yesterday set out the benefits they expect to get from putting the companies together. On the £4.5bn of products which both companies sell, such as toiletries and toys, they expect to make some £50m a year in savings.

Combining distribution networks and head office overheads would save a further £10m a year, though both businesses insisted there would be no redundancies. Finally, the opportunity to introduce new products – such as Woolworth's Chad Valley toy range and Comet's electricals – into Asda stores, and vice versa, is expected to contribute at least a further £40m in annual benefits.

Together, the two businesses would have 3,000 stores worldwide, selling from 52m sq ft.

One idea that has been discussed is opening city-centre Asda food stores in some old Woolworth sites.

The logic of building scale to compete in the same league as the world's biggest retailers could be compelling if the deal is followed by a rash of pan-European mergers. As news of mergers and alliances emerged yesterday from Germany and France, it seemed the argument was winning support.

Inchcape ready to offer £530m cash windfall

By Susanna Voyle

Shareholders in Inchcape yesterday heard that they are to get a £530m ($853m) cash windfall as the former trading company approaches the end of its disposal phase.

The company said it was in the process of finalising a circular to shareholders with details of the pay-out. However, the group said it had decided to pay a special dividend of 100p a share.

The pay-out will mark the symbolic end to the restructuring of one of the oldest names in the London market. The move had been expected, after the announcement last year that it would focus on international motor distribution.

The restructuring was prompted by a feeling that Inchcape's sprawling structure was too complicated for investors to understand. It has sold five businesses, and disposal of the sixth – an office automation distribution joint venture in Japan – is expected before the end of June. Inchcape has raised more than £620m from the sales before tax and costs.

The company yesterday said it expected to be able to send the circular to shareholders once the biggest disposal – the $750m sale of its Chilean bottling operation – was complete.

The disposal, which requires shareholder approval, is subject to agreement of a syndicated loan facility yet to be put in place by Embotelladora Arica, the Chilean soft-drink bottler that is buying the business. Agreement is expected before the end of the month.

Apart from the bottling interests, Philip Cushing, the chief executive who will leave the group once the disposals are complete, has sold its Russian bottling operations for $87m, its Asian marketing business for £93m, Inchcape shipping services for £47.5m and Middle Eastern marketing for £116m.

NU at top end of market forecasts

By Christopher Brown-Humes

Norwich Union, the life assurer, announced a 32 per cent rise in first-quarter new business, but its shares fell on worries about margins and prospects for the rest of the year. The increase in business from £88m to £116m ($187m) was at the top end of expectations, and came after UK business rose 29 per cent, from £57m to £74m.

But Norwich downplayed the performance, saying the figures were flattered by a poor first quarter last year.

There was strong growth in UK investment bond business, with sales doubling from £80m to £164m – but a weaker performance in other areas, such personal pensions, which only rose 5 per cent.

Philip Scott, head of long-term savings at Norwich, said the group had benefited from a switch out of bank deposits. "Investment bonds are attractive products at a time of low inflation when people are finding their income squeezed," he said.

The shares, which went ex-dividend, fell 3½p to 456p, with analysts saying the figures were not as impressive as Axa Sun Life's 10 days ago. There were also worries about a change of mix to lower-margin business and the contribution – unquantified – from newly-acquired London & Edinburgh.

The group's European business rose 12 per cent to £26m, while international operations climbed 86 per cent to £16m, helped by success in Australia.

Practise with unsafe sectors and dissatisfaction is guaranteed

Jane Martinson looks at the implications of the row over MAM's poor performance

When Wendy Mayall of the Unilever pension fund first rounded on Carol Galley of Mercury Asset management over the fund manager's poor performance, neither realised the interest their fight would attract.

But the dispute between Miss Galley and Ms Mayall, two leading industry figures, is more than a passing sideshow, raising questions about how binding the requirement is for a manager to beat its benchmarks.

The differences first emerged early last year when Ms Mayall, Unilever's pension fund manager, demanded to know why MAM had underperformed its client-set benchmark by 10 percentage points the year before.

The questions focused on the extent of the underperformance and the fact that other MAM clients had enjoyed much better returns. Ms Mayall, according to industry sources, was "spitting blood" about the impact on the group's pension scheme members.

Soon afterwards, Unilever sacked MAM from its £1bn ($1.6bn) portfolio and started investigating the possibility of claiming compensation of up to £100m.

Although few in the industry believe that a case will go to court, the potentially ground-breaking battle has sent ripples through the pension fund industry.

Miss Galley, co-head of MAM responsible for UK institutional clients, admits: "We are in unprecedented territory."

Stephen Zimmerman, the other co-head of the business, suggests that compensation in the event of underperformance would open up a legal minefield. "Even in a litigious society like the US, fund managers are not signing up to guaranteed performance."

Merrill Lynch Mercury, the group's name following its takeover by the US investment bank almost 18 months ago, will not discuss individual clients. Unilever is equally tight-lipped.

But the seriousness of any potential action has meant that the company, notoriously press-shy, has publicly defended its risk controls during the period of underperformance.

Mercury has traditionally allowed its fund managers greater investment freedom than its rivals. In the past two years it has come under fire from consultants as well as disaffected clients for allowing its spread of returns to widen.

One source close to Unilever says the fund was particularly unhappy about the fact that individual fund managers were allowed to take such big bets.

"You would look at the portfolio and not recognise anything like an index," he said.

A leading consultant went further and said: "Mercury was a franchise. There wasn't anything called the Mercury house line."

Mercury has acknowledged that the spread of returns in 1997 was unacceptable, but partly blames highly unusual market conditions.

The year saw a handful of companies and sectors outperform the broader index, a situation that magnified the impact of relatively small investment decisions.

Miss Galley says: "We were worried about the level of the stock market and we misjudged the fact that momentum and liquidity were going to take over from profits, earnings and dividends as the primary driver to share price movements."

Like other active managers, Mercury suffered by buying unloved British industrial groups and smaller companies.

In spite of its difficulties, Mercury has defended its active investment style, arguing that the alternative is to hug the stock market index and provide lower long-term returns.

"Managers need to take a degree of risk in order to achieve returns," says Miss Galley.

At the same time, the group has moved to improve the consistency of its returns.

Rivals argue that Merrill is itching to exert more influence over its expensive acquisition.

However, Mercury insiders say that Miss Galley and Mr Zimmerman are still very much in control.

Both appear unhappy over the attention given to their traditional UK business when they are winning so much business elsewhere.

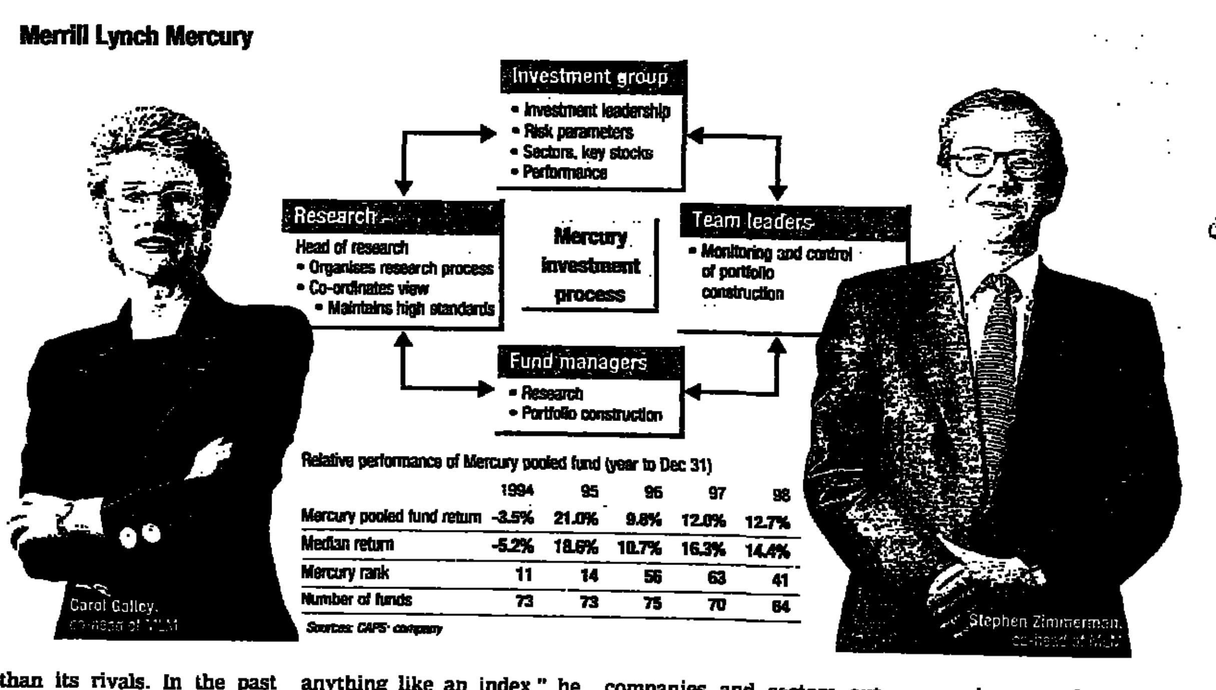
In the first quarter of this year, the group is understood to have won a record $8bn in net new business.

This comes in spite of the fact that two of the leading investment consultants in the UK have taken MLM off their shortlists.

Further questions will be asked before MLM is put back on these lists.

Miss Galley must hope until then that consultants like the *answers better than* Unilever did.

Merrill Lynch Mercury



Carol Galley, co-head of MLM

Stephen Zimmerman, co-head of MLM

Relative performance of Mercury pooled fund (year to Dec 31)

	1994	95	96	97	98
Mercury pooled fund return	-3.5%	21.0%	9.8%	12.0%	12.7%
Median return	-5.2%	18.6%	10.7%	16.3%	14.4%
Mercury rank	11	14	56	63	41
Number of funds	73	73	75	70	64

Sources: CAPS: company

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Assoc Brit Foods	24 wks to Feb 27	1,988	(1,966)	109♠	(193)	5.8	(14.5)	4.25‡	Sept 1	4.25	-	10.5
Barclays Global Inv	6 mths to Jan 31	-	(-)	1.96	(2.68)	9.81	(13.4)	-	-	-	-	-
Ben Bailey	Yr to Dec 31	37.1	(29.1)	1.51	(1.31)	10	(8.62)	1.6	June 4	1.6	2.5	2.2
CNC Properties	Yr to Dec 31★	17.6	(11.9)	4.59♠	(4.11)	9.3†	(10.8)	2.2	July 2	1.9	3.7	3.3
Densitron Intl	Yr to Dec 31	38.8	(39.3)	0.605	(1.71)	3.47L	(1.86)	nil	-	1	nil	1.6
Ferraris	6 mths to Feb 28	15.7	(11.8)	0.855♠	(0.713)	4.5	(4.7)	1.6	July 30	1.4	-	3.6
Harvey Nash	Yr to Jan 31♦	104.9	(56)	9	(5.21♠)	20.89	(13.23)	3.8	May 26	3.1	5.4	4.65
HIT Entertainment	6 mths to Jan 31	6.88	(6.02)	1.38	(1.15)	5.5†	(4.9)	0.605	-	0.55	-	1.1
Multi Equipmt Rent	Yr to Dec 31	4.73	(3.23)	0.709	(0.312)	2†	(1.04)	0.17	July 23	-	0.3	-
Offshore Tool$	Yr to Dec 31	52.9	(11)	1.46	(0.65)	0.04※	(-)	-	-	-	-	-
Skyepharma	Yr to Dec 31	11	(13.8)	22L♠	(17.7L)	5.7L†	(5.1L)	-	-	-	-	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ‡Payable after share consolidation and excluding special of 50p. ★Comparatives restated. $Aim stock. ♦Comparatives pro forma. ※Pro forma.

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هكذا من الأصل

LVMH

MOËT HENNESSY . LOUIS VUITTON

Letter to Gucci shareholders

Dear Fellow Shareholders,

We would like to explain our view of the present situation and its implications for all Gucci shareholders.

A successful offer by LVMH is clearly impossible in the current circumstances

In the current circumstances, LVMH cannot launch an unconditional public offer because it would have no realistic chance of success.

Our financial advisors have indicated that **there is no precedent for a successful offer that was opposed by a holder of 40% or more of a company's shares.**

More than 50% of Gucci's shares have already indicated their opposition to LVMH's proposed offer at $85 per share.

PPR owns 42% of Gucci's shares and its president has publicly stated that PPR would not sell to LVMH in a public offer, nor is PPR interested in making an offer itself to purchase all Gucci shares.

Tom Ford owns approximately 2% of Gucci's shares and cannot sell these shares without the consent of PPR.

Templeton Fund, which has more than 6% of Gucci's shares, has announced that it will not sell its shares in an LVMH offer at $85.

Together, these shares constitute more than 50% of Gucci's shares, yet they include the votes of just one "independent" shareholder, owning only 6% of Gucci's shares, or about 18% of the total independent shares.

As such, it is clear that LVMH's proposed offer for all Gucci shares at $85 per share has absolutely no chance of success unless some action is taken to restore a level playing field.

We have made a number of suggestions to Gucci that would make it possible for LVMH to make an offer with a fair chance of success. In particular, we have suggested to Gucci that **if a majority of independent shareholders support LVMH's offer at $85 per share, the Gucci Board should take action to make the success of such an offer possible, despite the PPR block.**

This proposal is in line with the public statements of Gucci itself, which defended the creation of the ESOP on February 18th in the following terms: "The ESOP will ensure that the majority of independent shareholders will retain the power to decide the Company's future."

Today, however, as a result of the PPR transaction, Gucci management finds it convenient to forget this principle of corporate democracy.

Having themselves created a 42% block, and having simultaneously diluted the independent shareholders from 65% to 34% of Gucci's shares (ensuring they will have no voice whatsoever in Gucci's future), Gucci now takes the position that it will not support the will of a simple majority of independent shareholders.

According to Gucci, **a successful public offer by LVMH would require acceptance by a super-majority of Gucci's independent shareholders.**

Of course, Gucci knows that this is impossible, given Templeton's opposition and Tom Ford's agreement with PPR. Gucci insists, nevertheless, that LVMH launch an unconditional offer, only to give the impression that there has been a fair process. In fact, Gucci is pushing LVMH to make a bid that will fail, so they and PPR will be able to claim that Gucci's shareholders have validated the PPR capital increase and strategy.

LVMH has made additional proposals to Gucci to find a solution to the obstacles that exist to making an offer with a fair chance of success, and in each instance these have been turned down by Gucci without any constructive counterproposals.

Gucci transferred control to PPR at $75 per share without a full bid or control premium to shareholders

Gucci has also forgotten another principle it espoused before the Amsterdam Court last February - that there should be no transfer of control without a 100% bid. Gucci chose to violate this principle in transferring control to PPR at $75 per share.

The Strategic Investment Agreement between Gucci and PPR provides:

- an initial 40% stake and a right to go up to 42% of Gucci's fully diluted shares;
- a standstill for 5 years, with no obligation to make a full bid thereafter;
- an option to PPR to purchase an additional 10.1% of shares from Gucci, in certain events;
- 4 out of 9 seats on the Supervisory Board, plus veto rights over the chairman;
- an undertaking to vote for management's slate of the remaining 5 Supervisory Board members, thereby depriving independent shareholders from making successful nominations;
- 3 out of 5 seats on the Strategic and Financial Committee of the Supervisory Board; and
- veto rights over all significant decisions, including issuance of shares, mergers and acquisitions, and choice of chief executive officer.

Gucci stated that action by it to support the will of a majority of independent shareholders, by issuing new shares to LVMH to dilute PPR's block, would be "inconsistent with the Strategic Investment Agreement" with PPR.

While Gucci's Board believed it was free to issue shares to the ESOP in February and to PPR in March, they now admit that they no longer have that freedom, because of the PPR Agreement. What more evidence could one ask for that Gucci's Board has given up its power to control the Company?

PPR confirmed its own view that it was acquiring control of Gucci in the resolution of its Board of Directors on March 19, 1999, entitled "Taking Control of Gucci Group".

PPR's public statement that it has no intention to make a public offer is easily understood. Why should they, when they already have control and are protected from any LVMH or third-party bid? When their standstill is lifted, PPR will be able to buy a few more shares in the market and achieve more than 50% of Gucci's shares without ever paying a premium, launching a bid or offering minority shareholders an exit.

The PPR Strategic Investment Agreement is not in the interest of Gucci's stakeholders

Gucci's alliance with PPR brings Gucci no strategic advantages. PPR has no experience in the distribution of luxury products and little experience outside France. PPR is a mass retailer and they themselves have admitted that there will be no synergies for Gucci from cooperation with the PPR group.

LVMH, on the other hand, is the world's largest luxury brands group and also includes DFS and Sephora, which are specialized in the international distribution of luxury goods. Through cooperation with LVMH group companies, Gucci will have the opportunity to benefit from synergies, leading to increased profitability and growth.

PPR has brought only cash to Gucci. The PPR capital increase is entirely inconsistent with Gucci's decision last year to conduct a share repurchase program. Moreover, if Gucci did require cash for strategic reasons, it could have gone to its existing shareholders for a capital increase, rather than diluting them with a capital increase reserved to PPR.

Instead, the full Gucci Supervisory Board decided in a two-hour meeting on March 18th, when they learned of the PPR transaction for the first time, to completely change Gucci's business strategy to become a multi-brand luxury group, to issue a 40% capital increase to PPR, and to transfer effective control of Gucci to PPR. This was done under a threat from PPR to terminate negotiations if a deal was not concluded by the next day. The Gucci Supervisory Board did not ask for additional time to consider alternatives (including presenting the PPR proposal to LVMH at the meeting scheduled for the next morning), in order to seek a better deal for all Gucci shareholders. Instead, they simply gave PPR 40% of Gucci's shares and control over its future, without requesting a full bid or a control premium.

LVMH is committed to making a full bid for Gucci if there is a level playing field

We reiterate that we will launch a public offer for 100% of Gucci's shares at $91 per share promptly following the nullification by the Amsterdam Court of the PPR transaction, or at $85 per share, including the PPR shares, in the event that a level playing field is created by Gucci or the Amsterdam Court.

Today, Gucci opposes the application of the principles they espoused previously. We leave it *to you to decide who is truly offering Gucci shareholders the best opportunity: those who transferred control to PPR without consulting existing* shareholders and without obtaining a control premium, or LVMH, which wants only to make a full offer that will have a fair chance of success and proposes to abide by the will of the majority of independent shareholders?

We are the only party today offering Gucci's independent shareholders an opportunity to exit with a premium. If this is not made possible either by Gucci or the Amsterdam Court, we will all end up minority investors in a PPR-controlled Gucci, with unimpressive prospects for the future and no reasonable exit opportunity.

We expect you share our serious concern about this situation, as our financial advisors have informed us that in the absence of the possibility of a takeover, the value of Gucci's shares is likely to drop substantially.

We seek your support in our efforts to make our bid possible and to avoid this very unfavorable result for all of us.

The Board of Directors

LVMH MOËT HENNESSY LOUIS VUITTON

MANAGEMENT & TECHNOLOGY

TECHNOLOGY MAGNETIC FLUIDS

Old idea holds new attractions

Simon Hadlington on the modern applications being found for a 1930s laboratory curiosity

Michael Glossop holds the small glass test tube in one hand and a magnet in the other. The test tube is full of water, but nestling in its base is a blob of black fluid.

As the magnet is brought close to the tube the blob stirs into life. When the magnet is drawn up along the outside of the glass the black fluid follows it like a slug, clinging to the glass wall.

The liquid "slug" is a magnetic fluid, and around the world research teams are investigating potential applications for this unique class of material. Magnetic fluids, also called ferroliquids or ferrofluids, consist of tiny magnetic particles – each around 10 millionths of a millimetre across – suspended in a carrier liquid, which can range from water to synthetic oils.

The magnetic particles, usually an oxide of iron, are prevented from clumping together by being coated with a surfactant, a chemical dispersing agent.

In the absence of a magnetic field, the ferrofluid shows most of the physical and chemical characteristics of the carrier liquid. However, when a magnetic field is applied the ferrofluid responds immediately. "This means that a ferrofluid can be positioned, controlled and held in place by a magnetic field, and it is this key property which has led to its applications in a wide range of industries," says Mr Glossop, UK managing director at New Hampshire-based Ferrofluidics, one of the world's main manufacturers of magnetic liquids.

Ferrofluids were discovered in the late 1930s, but remained essentially a laboratory curiosity until the 1960s, when Nasa began investigating ways of moving liquid fuels in low-gravity environments. However, the development of solid fuels rendered further work on magnetic liquid fuels unnecessary, and in 1968 Nasa licensed the technology to Ferrofluidics.

Since then, the main application for ferrofluids has been in vacuum sealing, especially in the semiconductor manufacturing process.

However, the slump in the semiconductor industry is forcing Ferrofluidics to seek new applications.

A ring of ferrofluid could be used as a valve to control the rate of flow of a gas

"One of the main new areas is in environmental technology," says Mr Glossop. "Whereas in semiconductor manufacture the ferrofluid seals were used to keep chambers free from contaminants, they are now being used to prevent unwanted vapours from seeping out."

The fluids are also being evaluated as a potential ultrasound "couplant" for inspecting industrial equipment. Ultrasonic sensors work by emitting pulses of high-frequency sound and analysing the echo. To work efficiently there needs to be a snug fit between the sensor and the surface.

Traditionally pastes are used, but these can have air bubbles trapped within them, which distorts the signal, or else can leak out. Researchers from the University of Nottingham in the UK are assessing whether ferrofluids, which can be held in place magnetically, can act as a more efficient couplant.

Meanwhile, gas transport companies are investigating the possibility of using ferrofluid technology to magnetise the adhesive that is used to join sections of pipeline. A magnetic glue could be positioned by external magnets much more precisely around the joint.

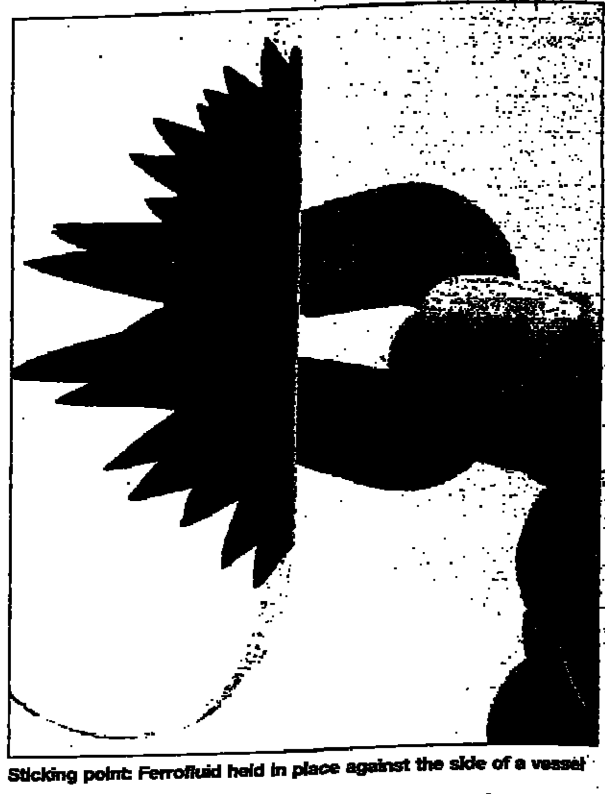
Another phenomenon associated with ferrofluids is their ability to "levitate" non-magnetic particles that are suspended in the fluid, causing them to rise to the top. When a magnetic field is applied to the fluid, the individual particles orient in a particular way. This motion generates mechanical forces within the fluid, causing non-magnetic particles to be expelled from the fluid.

By varying the composition of the fluid and the size of the externally applied magnetic field, it is possible to separate particles which have different densities. This could potentially be the basis for large-scale separation processes.

Meanwhile, at Heriot-Watt University in Edinburgh, Scotland, Wolf-Gerrit Fruh is investigating using ferrofluids as a lubricant to ease the flow of viscous liquids through pipes. Their use would mean less energy was needed to pump the liquid.

A second aspect of the project is to investigate whether a ring of ferrofluid could be positioned within a pipe and used as a valve to control the rate of flow of a gas.

"It might be possible to have a liquid valve, held in place by magnets. By moving the magnets it would be possible to change the position or shape of the liquid in the pipe, enabling the position of the valve or the amount of gas going through the pipe to be varied."



Sticking point: Ferrofluid held in place against the side of a vessel

PEOPLE ON THE MOVE

Staley to succeed Micek at Cargill helm

Ernest Micek, chairman and chief executive of Cargill, the largest private company in the US, is to give up the chief executive officer's role in June, and finally retire in August 2000.

Micek, 63, who joined the big agribusiness and industrial company four decades ago as a production shift supervisor at one of its soyabean processing plants, has chaired Cargill since 1995.

His replacement will be **Warren Staley**, who is already the effective number two at the company, having been appointed president early last year.

Staley, 56, has been with Cargill for 30 years and has previously run the company's international feed and meat business; its North American operations; and its Latin American business. He will take over the chief executive's role from Micek on June 1.

When Micek was named for the top job at Cargill in 1995, he succeeded Whitney MacMillan, a great-grandson of the company's founder. It marked the first time that top management of the Minneapolis-based company had passed outside the founding Cargill and MacMillan families, although they still have senior executive positions within the group and board seats.
Nikki Tait, Chicago

Deutsche team to Goldman

Deutsche Bank's corporate and investment banking operation has suffered its first significant defection in nearly a year with the loss of its highly ranked European telecoms research team, led by **James Golob**, to Goldman Sachs.

Deutsche was yesterday believed to be especially peeved at the poaching because Goldman Sachs is acting as its financial adviser on deals including the planned takeover of Bankers Trust of the US and the sale of Australian operations.

Golob joined Deutsche Morgan Grenfell in 1995 from S.G. Warburg as part of the German bank's mid-1990s recruitment drive in which little expense was spared.

Moving to Goldman with Golob are **James Sawtell, Simon Weeden, Nuno Machado** and **Belinda Sartori**. Most were members of the European telecoms team, which was placed second in last year's Extel survey rankings of investment analysts.

Their departure is the biggest exodus from Deutsche since US technology guru Frank Quattrone led his 120-strong team to Credit Suisse First Boston in the middle of 1998.

Golob's younger brother, Peter, came from Warburg at the same time and headed Deutsche's corporate advisory activities in telecoms until leaving for Merrill Lynch last year.
Clay Harris, London

Slack leaves Anglo American

Hank Slack, one of the eight executive directors of the new Anglo American, has decided to leave the company in May. The announcement comes less than six weeks before AA, the product of the merger of Anglo American Corporation of South Africa with its offshore sister company, is scheduled to get its London listing.

Slack, an American who has been with the Oppenheimer group for more than 27 years, and was at one point married to Harry Oppenheimer's daughter Mary, has been chief executive of Minorco for the past few years, and will continue in this job until the AA listing towards the end of May. Slack, 49, said he was leaving for personal reasons.
Gillian O'Connor, London

Changing chairs at Rio Tinto

Three of the senior managers of Rio Tinto, the London-based diversified mining group, are playing musical chairs.

Oscar Groeneveld, head of technology, will become chief executive of the copper group. **Jonathan Leslie**, chief executive of the copper group, will become chief executive of the gold and other minerals group and **John O'Reilly**, chief executive of the gold and other minerals group, will become head of technology. The changes will take effect at the end of April.

Groeneveld and Leslie will retain their positions as executive directors of Rio Tinto.

A spokesman for Rio said the changes were in line with the company strategy of giving senior executives exposure to a variety of tasks.

The company announced that since January 4 it has bought a further 10.95m shares in cash in its Australian aluminium subsidiary Comalco, which increases its holding from 70.4 per cent to 72.36 per cent. Average purchase price was A$5.93 per share.

Australian rules allow a company to increase its holding in a subsidiary by up to 3 per cent over 6 months, without the purchase triggering the need for a full bid. The aluminium price, and hence the Comalco price, were depressed in the first quarter of this year.
Gillian O'Connor, London

Minami heads Tokyo Electric

Tokyo Electric Power Company, Japan's power utility giant, has announced plans to reshuffle its management and has named **Nobuya Minami**, executive vice-president, as the new president.

He will replace **Hiroshi Araki** who is becoming chairman after serving three two-year terms as president since 1993. **Shoh Nasu**, incumbent chairman, will become adviser to the company.

This reshuffle, a regular occurrence, will be officially approved at a shareholders' meeting in June.

Minami, 63, a graduate of prestigious Tokyo University, joined Tepco in 1958. During 40 years at the company, he served as head of the planning division, then a director, and finally managing director before becoming executive vice-president in 1996.
Nobuko Juji, Tokyo

Departures at Kvaerner

Kvaerner, the loss-making Anglo-Norwegian industrial engineering group, is slowly seeing the departure of a number of managers appointed by its previous chief executive, Erik Tonseth. Kjell Almskog, Kvaerner's chief executive as of December, unveiled a radical restructuring last week involving an exit from shipbuilding, provisions of NKr4bn ($513m) and a cost-cutting plan to reduce debt by NKr7bn this year.

The shake-up has prompted the loss of **David Moorhouse** and **Edgar Fossheim**, two appointments under Tonseth's reorganisation in October. Then, Moorhouse, 51, was promoted from head of the process area to take responsibility for long-term strategic development.

He resigned two weeks ago amid conflict concerning Almskog's new direction for the company. **Edgar Fossheim**, 49, stepped down earlier this year after having recently been appointed to head Kvaerner Energy, one of Kvaerner's businesses now up for sale.

In the near future the group will appoint a chief financial officer to replace **Jan Magne Heggelund**, who resigned this month as interim chief financial officer and chairman of the industrial products group.
Valeria Sköld, Oslo

Sir George to Short Bros

Sir George Quigley, one of Northern Ireland's best known businessmen, is to become chairman of Short Brothers, the Belfast-based aerospace company owned by Canadian conglomerate Bombardier.

He will take up the post from May succeeding **Sir Roy McNulty**, who is to become a board member of the National Air Traffic Services.

Sir George is currently chairman of Ulster Bank, NatWest's Irish subsidiary. He was formerly finance secretary in the Northern Ireland civil service.

In recent months, he attracted attention because of his leadership of the G7 group of business and trade union organisations which urged politicians to agree to a compromise to allow the implementation of the Good Friday peace agreement.

The group was set up in the wake of the Drumcree marching dispute in 1997 which caused widespread disruption to the local economy.
John Murray Brown, Dublin

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EURO MARKETS

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Apr 19 National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj yld	Total rtn (Euro) €
FTSE Eurotop 300	1310.86	+1.69	+21.74	1.90	6.21	1356.58
FTSE Eurotop 100	3024.28	+1.58	+46.94	1.82	14.16	1089.50
FTSE Eurobloc 100	1068.10	+1.63	+17.13	1.91	1.95	1080.28
FTSE EuroMid	1315.41	+1.39	+18.05	2.61	8.53	1372.55
FTSE EuroMid Eurobloc	1248.51	+1.47	+18.14	2.45	6.13	1281.42
FTSE EuroMid Ex UK	1305.95	+1.04	+13.51	2.28	6.03	1337.58
FTSE Eurotop 300 Regions						
Eurobloc	1333.59	+1.56	+20.42	1.85	2.79	1365.10
UK	1298.41	+2.07	+26.38	2.14	12.23	1377.25
Europe Ex-Eurobloc	1298.83	+1.81	+23.10	1.95	9.63	1355.78
Europe Ex-UK	1318.02	+1.46	+18.97	1.77	2.81	1345.68
FTSE Eurotop Industry Sectors						
RESOURCES	1139.20	+4.05	+44.30	2.47	6.33	1199.28
Mining	1233.46	+5.53	+64.59	2.84	21.37	1290.50
Oil & Gas	1092.42	+3.98	+41.79	2.45	5.47	1125.57
BASIC INDUSTRIES	1249.29	+1.63	+20.04	2.33	6.95	1284.16
Chemicals	952.89	+1.16	+10.89	2.24	2.93	973.21
Construction & Bld Matls	1143.03	+3.71	+40.87	2.20	3.08	1156.51
Forestry & Paper	1106.35	−0.02	−0.27	3.50	38.68	1203.85
GENERAL INDUSTRIALS	1210.74	+1.78	+20.98	2.28	6.36	1243.50
Aerospace & Defence	861.56	+0.13	+1.13	1.95	3.94	877.72
Diversified Industrials	951.56	+2.03	+18.97	2.15	1.73	975.07
Electronic & Elect Equip	1159.90	+2.58	+29.22	1.63	9.86	1177.47
Engineering & Machinery	1168.34	+0.46	+5.31	3.77	5.83	1191.29
CYCLICAL CONS GOODS	1433.95	+3.07	+42.68	2.10	0.60	1474.10
Automobiles	1061.03	+2.31	+23.95	2.18	0.53	1071.47
Household Goods & Texts	1445.85	+6.68	+90.47	1.87	0.00	1458.19
NON-CYC CONS GOODS	1204.45	+1.91	+22.63	1.53	8.39	1244.11
Beverages	950.52	+5.52	+49.72	2.43	10.32	981.88
Food Producers & Process	915.65	+1.45	+13.11	1.73	3.36	929.83
Health	1023.28	+0.75	+7.58	1.07	0.00	1038.59
Packaging	833.03	+2.75	+22.29	1.08	0.00	834.07
Personal Care & Hse Prods	1132.21	+5.91	+63.22	0.96	1.94	1143.89
Pharmaceuticals	1090.78	+1.25	+13.47	1.28	5.22	1101.82
Tobacco	1267.19	+0.29	+3.67	3.49	26.75	1316.91
CYCLICAL SERVICES	1375.65	+1.84	+24.89	1.80	6.87	1423.28
Distributors	597.23	−2.73	−16.78	1.57	0.00	603.94
General Retailers	1151.25	+1.44	+16.38	1.86	3.83	1179.19
Leisure Entertmt & Hotels	1099.97	+5.55	+57.87	1.76	8.72	1125.75
Media & Photography	1263.40	+1.50	+18.71	1.68	10.76	1288.05
Rests, Pubs & Breweries	890.38	+1.49	+13.09	2.67	3.71	920.49
Support Services	1087.07	+1.96	+20.50	1.23	3.28	1081.68
Transport	1025.56	+1.59	+16.05	2.23	5.18	1049.93
NON-CYCLICAL SERVS	1389.81	+0.40	+5.57	1.28	1.72	1432.28
Food & Drug Retailers	1142.78	+1.78	+19.98	1.67	6.11	1166.62
Telecommunications Servs	1357.30	+0.10	+1.36	1.18	0.43	1377.98
UTILITIES	1325.85	−0.30	−3.98	3.03	8.10	1413.83
Electricity	1000.99	+0.04	+0.38	3.25	5.57	1038.23
Gas Distribution	1120.69	−1.19	−13.45	1.50	8.21	1242.54
Water	872.57	−0.67	−5.92	6.21	5.94	919.52
FINANCIALS	1400.56	+1.56	+21.46	2.06	7.96	1447.56
Banks	1020.33	+1.59	+16.00	2.36	7.58	1043.37
Insurance	1007.27	+1.37	+13.60	1.36	1.91	1021.38
Life Assurance	1116.45	+1.92	+21.04	1.79	6.46	1139.51
Investment Companies	1092.34	+2.13	+22.83	2.10	0.00	1118.54
Real Estate	780.02	−1.37	−10.81	2.75	1.67	802.19
Speciality & Other Fin	1035.14	+1.98	+20.14	2.19	2.94	1055.48
INFORMATION TECH	989.55	−0.10	−0.97	0.84	4.42	986.69
Information Tech Hardware	1174.36	+0.08	+0.86	0.92	8.24	1123.93
Software & Computer Serv	700.02	−0.69	−4.83	0.56	0.15	701.81

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FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	2989.0	3016.0	+36.0	3008.0	2989.0	150	5660

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) €10 per index point

	2800 C	2800 P	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P	3100 C	3100 P	3150 C	3150 P
Apr	207	3	158	3	107	4	58	7	19	21	4	58	2	108	-	-
May	233	37	192	47	156	61	122	78	92	98	68	124	48	155	-	-

Est vol total:411 . Prev day's open interest total: 17,365 . Premiums shown are based on settlement prices.

OTHER INDICES

	Apr 19	Apr 16	Apr 15	1999 High	1999 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3702.59	3643.80	3644.99	3723.56	3260.29	3723.56	2433.07
DJ Euro Stx 50	3786.83	3685.15	3682.05	3786.40	3325.59	3786.4	2419.23
MSCI Europe	[illegible]	1230.01	1223.10	1230.01	1153.00	1315.05	510.76

Source: Financial Times Information. *Subject to revision next day. (n) unavailable.

Equity markets dogged by poor liquidity

After a lukewarm start to the year, European markets may be seeing the start of a return of retail investors, writes Jeffrey Brown

European equities have made a sluggish start to 1999. Some smaller bourses have pushed up to best ever levels, but investors in the core economies remain deeply sceptical of events.

Oslo, last year's backmarker, has rallied powerfully this year on the back of the recovery in energy commodity prices, and Helsinki has also hit peaks.

But the broad swathe of leading stock markets, notably, Frankfurt and Paris, have stayed doggedly dull.

While Wall Street has powered ahead, setting records almost daily, equity investors in Europe have been more circumspect.

In the US, the Dow Jones Industrial Average has risen more than 14 per cent this year while the FT-S&P World index has put on 9 per cent in local currencies.

The contrast with Europe is marked. This year the FTSE Eurotop 300 index has improved just 6 per cent. Moreover, half this upturn has only appeared on the charts since the European Central Bank sliced an unexpectedly deep 50 basis points off its refinancing rate to 2.5 per cent on April 8.

One reason for the broad underperformance of European equities has been unexciting liquidity.

Flows of funds into European mutual funds, widely seen as the key marginal investor in equity markets, are still substantially short of the boom levels achieved during early 1998.

Lately there has been a glimmer of hope. According to Salomon Smith Barney, net inflows into European mutual funds improved in February for the second month running, rising to $4.8bn and racking up the second best monthly figure over the past seven months.

Anecdotal evidence suggests that the upturn in European fund intake may have been maintained through March – at least for UK equities.

That said, however, it is hard to escape the impression that European liquidity is nothing more than relatively lukewarm.

February's $4.8bn net inflow was a full $2bn down on the average monthly inflow last year, while a more direct comparison with the first half of 1998 widens the gap significantly.

Over the first six months of last year, average monthly inflows were closer to $9bn.

As leading suppliers of new investment money, mutual funds rank almost side by side with life insurance companies.

Continental European experience is difficult to assess, but mutual funds in the UK created £9bn ($5.6bn) of additional funds in 1997, while life funds accounted for £12bn.

Even if that kind of relationship cannot be fully transposed to the euro-zone, it is nonetheless clear that mutual fund flows are a key indication of equity market development.

In the UK, equities account for the best part of 90 per cent of mutual fund portfolios. In Europe, the ratio is a more modest 25 per cent – but growing fast.

One corollary to mutual fund inflows is total cross-border flows of funds and here the trend is possibly more encouraging, although given the time lags involved in their compilation, the numbers are imbued with a sense of history.

Having fallen apart at the seams in the third quarter of last year when the FTSE Eurotop 300 was rapidly heading down towards the lows it touched in September, cross-border flows recovered impressively in the final three months of 1998.

Net purchases of European equities by foreign investors turned negative in August and September and, as a result, the third quarter was barely in surplus.

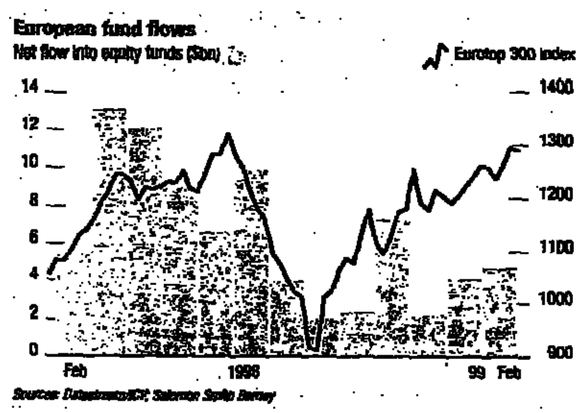
But the subsequent recovery was dramatic. A record $51bn of net purchases in November boosted the average for the quarter up to around $27bn.

The UK and Germany accounted for the bulk of the November investment bulge. According to Salomon Smith Barney calculations, it is these two countries, flanked by the Netherlands, that should gain the most from upturns in mutual fund inflows.

Although it makes no bones about the subdued level of liquidity since last summer, Salomon Smith Barney is now much more confident that fund flows can start to enhance equity markets.

This partly reflects the recent ECB rate cut, which is expected to shift European savers away from cash and into higher-return equity funds.

"It may take a few more months before inflows return to the $9bn monthly levels of a year ago, but when they do retail investors will be back firmly in the driving seat," says Salomon Smith Barney.



Source: Datastream/ICV; Salomon Smith Barney

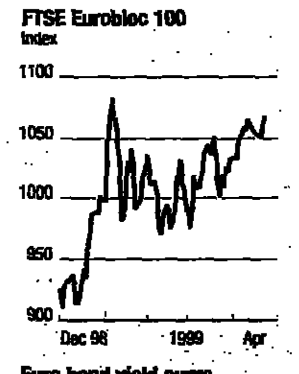
CURRENCIES, MONEY & BONDS

EURO-ZONE BONDS

Apr 19	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
SOVEREIGNS								
UK	01/01	4.250	AAA	102.840	2.58	−0.03	−0.54	−0.15
Denmark	01/02	4.750	AA+	104.352	3.05	−0.03	−0.20	+0.18
Sweden	02/01	5.000	AA+	103.663	2.87	−0.03	−0.27	+0.14
Greece	11/06	6.750	BBB	115.544	4.29	−0.01	−0.11	+0.78
SUPRANATIONALS								
ADB	10/07	5.500	AAA	108.328	4.17	+0.00	−0.16	+0.54
EIB	04/08	5.000	AAA	107.094	4.04	+0.01	−0.05	+0.29
Eurofima	12/08	5.625	AAA	110.598	4.36	+0.00	−0.17	+0.51
World Bank	04/05	7.125	AAA	118.185	3.68	−0.02	−0.07	+0.31
UTILITIES								
EDF	10/03	3.750	n/a	102.148	3.23	−0.02	−0.15	+0.18
TEPCO	02/03	4.750	AA	104.108	3.58	−0.03	−0.10	+0.53
Quebec Hydro	03/08	5.375	A+	106.540	4.47	+0.01	−0.18	+0.72
Norsk Hydro	10/09	7.250	A	101.758	3.18	−0.04	−0.20	+0.58
FINANCIALS								
Bad Wurtt	02/10	5.375	AAA	108.473	4.37	+0.00	−0.07	+0.45
OKB	09/07	5.750	AAA	111.701	4.07	+0.00	−0.07	+0.44
Credit Local	04/08	5.250	AA+	107.332	4.25	+0.01	−0.16	+0.50
Abbey Natl	01/09	5.000	AA−	102.457	4.68	+0.01	−0.07	+0.83
INDUSTRIALS								
Unilever	10/01	5.125	AAA	104.728	3.10	−0.02	−0.22	+0.37
McDonalds	03/08	5.125	AA	106.215	4.27	+0.01	−0.10	+0.52
Philip Morris	06/08	5.625	A	105.145	4.91	+0.01	−0.03	+1.16
BAT Int Fin	07/06	5.375	A−	104.295	4.86	−0.01	−0.16	+1.15
PFANDBRIEFE								
Rhein Hypo	12/01	5.500	n/a	106.021	3.06	+0.01	−0.18	+0.33
Eurohypo AG	01/04	5.000	n/a	106.597	3.46	+0.02	−0.10	+0.24
Bayer Vereins	01/06	6.000	n/a	112.609	3.84	+0.02	−0.07	+0.38
Depfa	07/08	4.750	n/a	103.860	4.23	+0.02	−0.01	+0.48
HIGH YIELD								
Geberit	04/07	10.125	B+	115.000	6.12	+0.00	−0.15	+2.49
Cott Telecom	11/07	8.875	n/a	107.023	7.74	−0.16	+0.05	+4.11
Impress Metal	05/07	9.875	B	112.000	6.96	+0.00	−0.46	+3.33
Texsy Cobertura	07/05	10.000	B−	106.160	8.30	−0.02	−1.72	+4.83

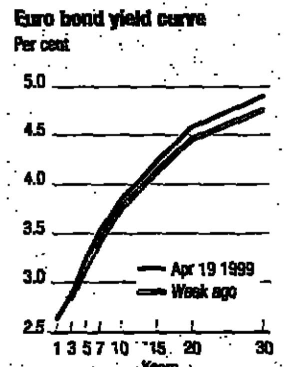
Standard & Poor's ratings. Source: Interactive Data/FT Information.

FTSE Eurobloc 100 Index



Euro bond yield curve

Per cent



Sources: FTSE International; Interactive Data/FT Information.

EURO SPOT FORWARD AGAINST THE EURO

Apr 19		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA
Europe												
Czech Rep.	(Koruna)	37.7367	−0.1913	104 - 629	37.9600	37.7000	37.8774	−4.5	38.1468	−4.4	39.3098	−4.2
Denmark	(DKr)	7.4329	−0.0015	302 - 356	7.4360	7.4300	7.4358	−0.5	7.4416	−0.5	7.4656	−0.4
Greece	(Dr)	325.182	+0.6230	962 - 403	325.520	324.199	327.0332	−6.8	330.6149	−6.7	344.2512	−5.9
Hungary	(Forint)	251.284	−1.8900	131 - 438	253.350	250.750	253.9728	−12.8	259.2450	−12.7	281.8041	−12.1
Norway	(NKr)	8.2685	−0.0305	617 - 712	8.2900	8.2600	8.2957	−4.2	8.3438	−3.7	8.4967	−2.8
Poland	(Zloty)	4.2547	−0.0358	508 - 586	4.2885	4.2500	-	-	-	-	-	-
Romania	(Leu)	15839.91	−108.5900	388 - 596	-	-	-	-	-	-	-	-
Russia	(Rouble)	26.6917	−0.7144	336 - 498	27.3385	26.6295	-	-	-	-	-	-
Slovakia	(Koruna)	44.9981	+0.1142	397 - 564	45.0810	42.3274	-	-	-	-	-	-
Sweden	(SKr)	8.8905	−0.0060	835 - 975	8.9000	8.8772	8.8936	−0.4	8.8970	−0.3	8.9147	−0.3
Switzerland	(SFr)	1.6012	−0.0015	004 - 020	1.6036	1.5996	1.5990	1.6	1.5946	1.6	1.5758	1.6
UK	(£)	0.6584	−0.0048	581 - 587	0.6632	0.6558	0.6598	−2.7	0.6627	−2.6	0.6751	−2.5
Americas												
Argentina	(Peso)	1.0609	−0.0093	607 - 611	1.0698	1.0585	-	-	-	-	-	-
Brazil	(R$)	1.7713	−0.0139	698 - 727	1.7889	1.7690	-	-	-	-	-	-
Canada	(C$)	1.5734	−0.0186	726 - 742	1.5878	1.5713	1.5761	−2.1	1.5813	−2.0	1.6043	−2.0
Mexico	(New Peso)	9.9762	−0.2165	690 - 834	10.0590	9.9525	10.1323	−18.8	10.4405	−18.6	12.0988	−21.3
USA	($)	1.0613	−0.0093	611 - 615	1.0700	1.0599	1.0633	−2.3	1.0675	−2.3	1.0880	−2.5
Pacific/Middle East/Africa												
Australia	(A$)	1.6284	−0.0265	275 - 293	1.6522	1.6258	1.6313	−2.1	1.6371	−2.1	1.6636	−2.2
Hong Kong	(HK$)	8.2230	−0.0721	212 - 248	8.3823	8.2210	8.2388	−2.3	8.2781	−2.6	8.5215	−3.6
India	(Rs)	45.4767	−0.2612	522 - 012	46.0956	45.3425	45.7784	−8.0	46.4670	−8.7	50.0900	−10.1
Indonesia	(Rupiah)	9127.19	−133.0800	883 - 544	9250.50	9028.00	9333.25	−27.1	9741.25	−26.9	11342.69	−24.3
Israel	(Shk)	4.2803	−0.0317	758 - 847	4.3137	4.2698	-	-	-	-	-	-
Japan	(Y)	125.297	−1.1400	220 - 374	128.800	125.000	125.0379	2.5	124.4983	2.5	122.1221	2.5
Malaysia	(M$)	4.0329	−0.0352	402 - 421	4.0658	4.0282	-	-	-	-	-	-
New Zealand	(NZ$)	1.9340	−0.0271	324 - 356	1.9631	1.9286	1.9371	−1.9	1.9433	−1.9	1.9752	−2.1
Philippines	(Peso)	40.2764	−0.6187	096 - 432	40.7670	40.0842	40.5400	−7.9	41.0440	−7.6	43.3323	−7.6
Saudi Arabia	(SR)	3.9802	−0.0345	791 - 812	4.0130	3.9749	3.9897	−2.9	4.0110	−3.1	4.1223	−3.6
Singapore	(S$)	1.8099	−0.0152	090 - 107	1.8293	1.8085	1.8074	1.7	1.8045	1.2	1.8016	0.5
South Africa	(R)	6.4304	−0.1067	239 - 369	6.5151	6.4032	6.4918	−11.5	6.6104	−11.2	7.1282	−10.9
South Korea	(Won)	1277.96	−24.8500	756 - 836	1302.19	1275.50	-	-	-	-	-	-
Taiwan	(T$)	34.7580	−0.4159	478 - 841	35.0430	34.7120	34.8113	−1.9	34.9494	−2.2	35.7944	−3.0
Thailand	(Bt)	39.5547	−0.5214	941 - 152	39.9822	39.4855	39.5926	−1.1	39.7656	−2.1	40.8771	−3.3
UAE	(Dirham)	3.8981	−0.0341	972 - 990	3.9852	3.8950	3.9062	−2.5	3.9234	−2.6	4.0065	−2.8

Euro Locking Rates: Austrian Schilling 13.7603, Belgium/Luxembourg Franc 40.3399, Finnish Markka 5.94573, French Franc 6.55957, German Mark 1.95583, Irish Punt 0.787564, Italian Lira 1936.27, Netherlands Guilder 2.20371, Portuguese Escudo 200.482, Spanish Peseta 166.386. Bid/offer spreads in the Euro Spot table show only the last three decimal places. Bid, offer, mid spot rates and forward rates are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the FT.

FTSE EUROTOP 300

Name	Price (Euro)	Chge +or−	Mkt cap (Euro)	Yld	P/E
AEROSPACE & DEFENCE					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AUTOMOBILES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BANKS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BEVERAGES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CHEMICALS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CONSTRUCTION & BUILDING					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DISTRIBUTORS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DIVERSIFIED INDUSTRIALS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ELECTRICITY					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ELECTRONIC & ELECTRICAL EQUIPT					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ENGINEERING & MACHINERY					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FOOD & DRUG RETAILERS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FOOD PRODUCERS & PROCESSORS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FORESTRY & PAPER					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
GAS DISTRIBUTION					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
GENERAL RETAILERS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
HEALTH					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
HOUSEHOLD & TEXTILES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
I.T. HARDWARE					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
INSURANCE					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
INVESTMENT COMPANIES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
LEISURE ENTERTAINMENT & HOTELS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
LIFE ASSURANCE					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MEDIA & PHOTOGRAPHY					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MINING					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OIL & GAS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PACKAGING					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PERSONAL & HOUSEHOLD PRODUCTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PHARMACEUTICALS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
REAL ESTATE					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
RESTAURANTS PUBS & BREWERIES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SOFTWARE & COMPUTER SERVICES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SPECIALITY & OTHER FINANCE					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SUPPORT SERVICES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TELECOMMUNICATION SERVICES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TOBACCO					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TRANSPORT					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
WATER					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Notes: Price data and market capitalisation supplied by FTSE International. Market capitalisation figures are based on shares listed in index calculation. Shares are not counted where foreign ownership restrictions apply. Market caps may include secondary lines not eligible as constituents. Stocks in bold type are domiciled in Euro countries. Trading Volumes and yields derived from local domestic markets and supplied by Financial Times Information. Company classifications are based on those used for the FTSE Eurotop share indices.

Brazil joins emerging market rush

NEW ISSUES

By Edward Luce in London and John Barham in São Paulo

Brazil yesterday launched its first international bond in more than a year in what is becoming a stampede by emerging markets to issue foreign bonds.

The Brazil bond, which will be between $1bn and $5bn depending on investor demand this week, is expected to be followed by a debut launch from Chile and possible issues from Bulgaria and even Malaysia in the near future.

Last week Mexico, Hungary, Colombia and the Korean Development Bank all issued dollar bonds.

The yield spread on the J.P. Morgan Emerging Market Bond Index yesterday narrowed by 11 basis points to 881 basis points by early evening in London. This is roughly equidistant between the index's record high and record low.

"There is a question mark about how sustained this rally is going to be," said one banker. "After all, the Asian recovery is still pretty thin. It wouldn't take much to upset the trend."

The Brazil offering will in effect be divided between two separate bonds – one an exchange for two outstanding Brady bond issues and the other a simple cash exchange. Pricing, and the ratio of Brady bonds to the new global bonds is to be announced on Thursday. Brazil's last bond issue of $1.25bn in March 1998 was priced to yield 375 basis points over comparable US Treasuries.

The latest bond issue was widely expected given Brazil's faster than expected recovery from January's 39 per cent devaluation of the Real.

President Fernando Henrique Cardoso said growing international recognition of the country's improved economic health should allow the government to issue a total of $5bn in bonds in the first half of the year.

Dany Rappaport, chief economist at the São Paulo office of Santander Investment, the Spanish investment bank, said the new bond would bring "no great change in profile, but there is a perceived improvement in quality".

The value of EI bonds, one of the securities eligible for this operation, rose to 81.84 per cent of face value at mid-session yesterday, up from 80.1 on Friday. The more liquid C Bond, which is not being included in this deal, rose to 71.84, its highest point this year.

Elsewhere, AMEV Leven, a subsidiary of Fortis, the Benelux financial services group, became the first insurance company to issue a straight equity-style offering in the form of a bond.

The €650m issue would count as tier-one regulatory capital for banks, in contrast to recent subordinated offerings by other European insurance companies, such as Swiss Re, which have offered tier-two deals.

The three-tranche bond, with call options after 10 years, was split into a large floating-rate tranche, targeted at banks, and (unusually) a large fixed-rate tranche targeted at insurance companies.

The offering is "non-cumulative", which means that investors would forgo interest payments during any period the company was in financial distress and had suspended payments.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Fannie Mae(a)	2bn	(a1)#	(a1)R	Apr 2004	-	-	CSFB/JPM/Merrill
Commerzbank AG(b)	500	5.375	97.82R	Feb 2004	0.275R	+70(4⅞%Feb04)	Commerzbank/Warburg
United Mexican States(c)	500	10⅜#	106.30	Feb 2009	0.75	-	JP Morgan
PHELT, Srs 99-PNB1(d)*‡	500	(d1)	100.00	Nov 2004	0.25	-	Merrill Lynch
BP Amoco Capital plc	300	5.50	100.015R	May 2002	0.1875R	+42(4¼%Mar01)	Warburg Dillon Read
EUROS(e)							
LW Rentenbank	1bn	4.125	99.078R	Apr 2009	0.325R	+34(4%Jul09)	ABN Amro/Dresdner KB
Fortis Capl Fndg Tst(g)‡	400	(g1)	100.00	undated	1.00	-	Merrill Lynch
Fortis Capl Fndg Tst(g)	200	(g2)	99.32	Undated	1.00	+169(Jul09)	Merrill Lynch
Fortis Capl Fndg Tst(g)	50	6.25(q)	100.00	Undated	2.00	-	Merrill Lynch
Republic of Argentina(h)	250	(h1,s)	98.52R	Mar 2004	0.625R	-	Paribas
Comun Autonoma Andalucia	180	4.25	99.56R	May 2009	0.35R	+40½(Jan09)	BBV/Warburg DR
ASLK-CGER Lunxembourg(j)	75	7.125	102.00	May 2004	2.00	-	ASLK-CGER
CANADIAN DOLLARS							
Deutsche Bank Finance	100	4.75	99.3205R	May 2002	0.1875R	-	Deutsche/RBC

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Callable after 2 yrs. a1) Priced today. b) Fungible with $500m. Plus 72 days accrued. c) Fungible with $1bn. Plus 66 days accrued. c) Providian Home Equity Loan Trust. MBIA insured. Av life: 2.26 yrs. c1) 1-mth Libor +29bp. e) Spread relates to German govt bonds. g) Callable on coupon dates from 26/4/09 at par. g1) 3-mth Euribor +130bp to Apr 09, then +230bp. g2) 5½% pa fixed to 26/4/09, then 3ME +230bp. h) Fungible with L1,125bn and Sch1bn after redenomination on 18/3/00. h1) 10½% to 18/3/00, then 7%. j) Redemption linked to any fall in Dow Jones Stoxx 50 index. q) Quarterly. s) Short 1st coupon

Pakistan move on debt delays inevitable in Paris

Western donor countries are insisting on a restructuring of the country's international sovereign bonds, writes **Farhan Bokhari**

Pakistan's decision to postpone a meeting with its western donors in Paris this week has only delayed an inevitable discussion on the controversial issue of restructuring its international bonds.

The country agreed with the Paris Club in February to restructure foreign debt worth $3.3bn. The Club has taken the view that the burden of restructuring must be shared by lending governments, banks and individual investors, to ensure comparable treatment.

The country's four sovereign bonds are worth only a modest $750m but their future has caught the attention of analysts in financial markets, who say the decision on Pakistan could have a landmark status for Third World debt. Many predict that the case of Pakistan could be used as a precedent in other cases, such as Romania and Russia.

Pakistan finance ministry officials are expected to travel to Paris early next month in another attempt to convince the Paris Club to back off. That meeting would be crucial as it would come shortly before Islamabad is due to make a $15m coupon payment on a $300m floating-rate note on May 28. Then, on June 26, comes a payment of about $18m on a $150m FRN with a put option.

Mr Dar says that under the terms agreed with the Paris Club, Pakistan can continue making the payments until such time that an agreement on bonds is reached, suggesting that making the two payments would not be a problem. But bankers say the Paris Club is likely to insist the payments be deferred in favour of a bond restructuring deal.

Pakistani officials say if it agrees to restructuring bonds, the country would be unable to access international markets for several years.

Mr Dar argues against the restructuring. "Bonds are a different type of animal than outright foreign debt, so it's not that straightforward," he says. "There is no clear-cut mechanism for restructuring, especially because a forced restructuring has not been attempted before."

'There is no clear-cut mechanism for restructuring, especially because a forced restructuring has not been attempted before'

Government officials say a bond restructuring could be followed by negotiations with hundreds of investors, and there may be litigation, too. "It's a can of worms which would be hard to shut once it's opened," says one.

But some bankers argue that a restructuring may not cause as much harm to Pakistan as the government thinks. That's mainly because considerable damage has already been done to its investment outlook, convincing many that even without the fall-out from restructuring, future issues may carry a "junk" status in capital markets.

Pakistan's decision in the past two years to launch investigations into alleged corruption in the case of 19 private power companies, each with foreign commercial debt and/or partial foreign ownership, has already caused considerable damage to the investment climate.

Businessmen say the investigations were a politically-inspired witch-hunt, meant to smear the power projects that were established while Benazir Bhutto, now the opposition leader, was prime minister.

"The fall-out may carry on for many years, and new investments are unlikely, whichever way the bond issue is settled," says one leading businessman.

Additional problems include Pakistan's weak economic outlook. The central bank's most recent report for the economy has scaled down this year's gross domestic product growth estimates to between 3.5 per cent and 4 per cent – down from a target of 6 per cent.

This is offset by increased demand for more public expenditure as population grows by about 2.7 per cent.

Bankers such as Zakir Mehmood, country head at French bank Credit Agricole Indosuez, say the international perception of risks tied to emerging markets could affect Pakistan for two to three years.

Ali Raza, country head at Bank of America, says even if Pakistan can convince the Paris Club to withdraw its demand for restructuring bonds, the terms the government would have to offer for future issues "would be prohibitive".

Late rally in the euro-zone sector

BENCHMARK BONDS

By Florian Gimbel in London and John Labate in New York

Government bond prices finished ahead after having seen lower prices for much of the session.

European bonds were initially weighed down by a falling euro and weakening US Treasuries. But comments by Wim Duisenberg, president of the European Central Bank, combined with a recovery in the US, sparked a late rally in the euro-zone markets.

Speaking before the European Parliament's monetary affairs committee, Mr Duisenberg said the recent ECB rate cut was to signal that it would not be repeated for the time being.

"I cannot define 'for the time being', but it is longer than the foreseeable future," he said. This has led analysts to believe there will be another euro-zone interest rate cut in September.

"The European yield curve continued to steepen as the short end rallied in hope of another rate cut. The long end, however, was hit by profit taking," said Nick Sharin at Norinchukin plc, adding that the Euribor was now suggesting a euro-zone interest rate of 2.60 per cent.

The Kosovo crisis led the the euro to a new low, which in turn weighed on market sentiment in Europe.

"The impact was not dramatic, but Kosovo is there as an issue," said Glenn Davis at Credit Lyonnais. He said a dragged out conflict could hamper European governments in their attempts to meet budget deficit targets.

The cost to the UK, for example, was already escalating and could soon hit £3m a day, according to military experts. Higher deficits could lead to higher public *refinancing requirements*, thus heightening supply concerns in the debt markets.

After paring initial losses, US Treasuries were little moved at mid-day, in spite of a blue chip rally on Wall Street. The 30-year bond, the benchmark for long-term interest rates, gained $\frac{1}{32}$ to 95¾, yielding 5.569 per cent.

The 10-year note was unchanged at 95½, yielding 5.219 per cent, and the two-year note was down $\frac{1}{32}$ to 99$\frac{21}{32}$, yielding 5.027 per cent.

The week ahead is expected to be slow in terms of fresh economic data, with new *trade figures due today*.

UK gilts were shining again after a last week's severe underperformance. The strengthening pound supported the rebound as it increased the likelihood of another interest rate cut.

Stronger than expected March producer price figures failed to impress the market. "The core inflation [striping out oil prices and the budget effects] was actually benign," said Mr Sharin.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Apr 19	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	106.5119	4.76	+0.04	+0.16	−0.17	−0.15
	08/08	8.750	124.4301	5.38	+0.04	+0.20	−0.08	−0.20
Austria	03/01	5.250	104.4500	2.79	−0.03	+0.01	−0.28	−1.36
	01/08	5.000	107.2100	4.00	−0.02	+0.08	−0.08	−0.83
Belgium	03/01	5.000	104.0100	2.82	−0.03	+0.01	−0.25	−1.36
	03/09	3.750	96.8100	4.14	−	+0.06	−0.05	−0.80
Canada	12/00	5.000	100.6135	4.66	−0.02	+0.04	−0.42	−0.27
	06/08	6.000	106.7000	5.07	+0.06	+0.18	−0.13	−0.19
Denmark	11/00	9.000	108.7500	3.12	−0.02	+0.02	−0.25	−1.25
	11/09	6.000	114.9800	4.21	−0.01	+0.04	−0.13	−0.86
Finland	08/00	4.000	101.4500	2.70	−0.02	−0.02	−0.30	−1.07
	04/09	5.000	107.5900	4.06	−0.02	+0.04	−0.09	−0.80
France	07/00	4.000	101.5700	2.66	−0.06	−0.03	−0.34	−1.47
	04/06	7.250	122.8100	3.52	−	+0.08	−0.12	−1.15
	04/09	4.000	100.1400	3.98	−0.01	+0.08	−0.08	−0.90
	04/29	5.500	109.0200	4.92	+0.01	+0.12	−0.06	−0.47
Germany	05/01	5.000	104.4300	2.77	−0.04	−0.01	−0.23	−1.25
	01/06	6.000	113.9000	3.62	−0.02	+0.06	−0.13	−1.08
	01/09	3.750	99.0700	3.86	−	+0.08	−0.07	−1.00
	07/28	4.750	97.9400	4.88	−	+0.12	−0.05	−0.51
Greece	03/00	9.800	100.6100	8.96	+0.06	−0.12	+0.12	−0.97
	01/09	6.300	103.3500	5.84	+0.07	+0.06	+0.06	−2.61
Ireland	10/01	6.500	108.5900	2.87	−0.01	−0.01	−0.25	−2.11
	08/09	*8.000*	*115.4800*	*3.98*	*+0.01*	*+0.08*	*−0.10*	*−1.05*
Italy	07/01	4.500	103.3800	2.89	−0.02	−0.01	−0.22	−1.61
	07/03	4.500	104.8400	3.26	−0.01	+0.05	−0.16	−1.45
	05/08	4.500	103.4300	4.08	−0.01	+0.07	−0.06	−0.95
	11/27	6.500	121.0700	5.09	−	+0.09	−0.03	−0.42
Japan	12/00	6.900	111.1440	0.14	−0.04	−0.03	−0.09	−0.43
	12/03	4.100	115.5650	0.70	−0.04	−0.04	−0.17	−0.43
	06/08	1.800	103.0540	1.44	−0.03	+0.01	−0.24	−0.14
	09/18	2.300	99.3450	2.34	−0.02	+0.02	−0.22	−0.09
Netherlands	01/01	9.000	110.3400	2.79	−0.03	+0.01	−0.27	−1.37
	07/08	3.750	97.7200	4.02	−	+0.08	−0.05	−0.82
New Zealand	02/01	8.000	105.5757	4.70	−	−0.05	−0.19	−2.93
	07/09	7.000	109.4764	5.76	+0.02	+0.13	−0.02	−0.95
Norway	05/01	7.000	104.5500	4.66	−0.01	−	−0.15	+0.30
	05/09	5.500	106.0000	4.74	+0.02	+0.11	−0.04	−0.48
Portugal	03/00	5.375	102.3200	2.74	−0.06	−0.03	−0.18	−1.46
	06/08	5.375	109.3400	4.13	+0.01	+0.10	−0.01	−0.85
Spain	01/01	5.000	103.8500	2.73	−0.02	+0.05	−0.21	−1.50
	07/09	0.000	107.0400	4.14	−	+0.10	−0.23	−0.84
Sweden	05/00	10.250	107.1978	3.01	−0.03	+0.03	−0.19	−1.62
	05/06	6.500	117.0390	4.19	+0.04	+0.01	−0.09	−0.92
Switzerland	06/00	4.500	103.7300	1.13	−0.01	−	−0.30	−0.74
	01/08	4.250	115.7500	2.24	+0.03	+0.12	+0.07	−0.76
UK	11/01	7.000	104.9300	4.91	−0.03	+0.10	+0.14	−1.76
	12/03	6.500	107.4800	4.88	−0.01	+0.11	+0.13	−1.21
	12/09	5.750	110.3800	4.51	−0.01	+0.12	−0.07	−1.26
	12/28	6.000	124.1300	4.51	−0.02	+0.09	+0.07	−1.18
US	01/01	4.500	99.1167	5.03	+0.03	+0.08	+0.01	−0.59
	02/04	4.750	98.4255	5.12	−	+0.17	+0.06	−0.52
	11/08	4.730	96.4678	5.22	−	+0.17	+0.08	−0.44
	02/29	5.250	95.3217	5.57	−	+0.12	+0.03	−0.33

London closing * New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

	Bid Yield	Spread vs Euros	Spread vs T-Bonds		Bid Yield	Spread vs Euros	Spread vs T-Bonds
[illegible]							

EMERGING MARKET BONDS

Apr 19	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
[illegible]								

BOND FUTURES AND OPTIONS

France · Germany · Italy · Spain · UK · US · Japan · Euro

[illegible]

US CORPORATE BONDS

Apr 16	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA−	104.5512	5.86	+0.04	−0.04	+5.86
NY Tel	08/25	7.00	A+	98.3987	7.13	+0.04	+0.08	+1.57
CWE	05/08	8.00	BBB	112.5386	6.17	+0.05	−	+0.96
FINANCIALS								
GECC	05/07	8.75	AAA	117.5240	5.98	+0.08	−	+0.77
Banc One	08/02	7.25	A	104.1433	5.83	+0.05	+0.02	+5.83
CNA Fin	01/18	6.95	A−	95.2529	7.42	+0.05	−0.09	+1.86
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.0000	5.39	−0.14	−0.33	+0.91
Wal Mart	05/02	6.75	AA	103.7298	5.41	+0.05	−	+5.41
Dayton Hud	06/21	9.70	A−	132.4258	6.83	+0.05	+0.03	+1.27
AGENCIES								
FHLMC	04/07	7.14	N/A	108.1244	5.85	+0.06	+0.08	+0.64
SLMA	03/00	7.50	N/A	102.0018	5.15	+0.04	−0.02	+0.69
FNMA	02/18	8.95	N/A	131.3809	6.11	+0.04	+0.06	+0.55
FFCB	06/06	8.95	N/A	118.5263	5.74	+0.06	+0.05	+0.53
HIGH YIELD								
Stone Cont	02/01	9.88	B	101.7500	0.00	−	−	−
AK Stl	12/01	9.13	BB−	106.2500	0.00	−	−	−
Pacalta	06/04	10.75	B−	98.0000	0.00	−	−	−

NY latest. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	7¾	One month	-	Two year	5.03
Broker loan rate	6½	Two month	-	Three year	5.03
Fed.funds	4$\frac{11}{16}$	Three month	4.33	Five year	5.13
Fed.funds at intervention	4½	Six month	4.56	10-year	5.24
		One year	4.69	30-year	5.58

INTERNATIONAL BONDS

Apr 19	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
$								
EIB	04/07	7.250	AAA	108.6814	5.86	+0.05	+0.03	+0.67
ABN Amro	08/07	7.125	AA−	104.0228	6.47	+0.04	+0.10	+1.28
Quebec	01/07	7.000	A+	105.3027	6.13	+0.04	+0.12	+0.94
Citicorp FRN	*02/04*	*5.866*	AA−	99.0469	5.29	+0.04	+0.02	+0.16
C$								
Bayer L−Bk	08/04	9.500	AAA	118.2318	5.44	−	−0.23	+0.22
Toronto (M of)	05/04	8.500	AA+	113.4264	5.41	−0.02	−0.22	+0.19
Bell Canada	07/99	10.625	A+	101.1640	5.10	−0.04	−0.42	+1.27
Deutsche B FRN	09/02	5.875	AA+	100.9872	5.55	−	−0.15	+0.52
£								
EIB	12/07	7.625	AAA	116.0300	5.26	−0.01	+0.11	+0.61
Dresdner Bk	12/07	7.750	AA−	111.2568	6.03	−0.02	+0.12	+1.38
British Gas	03/00	7.625	A+	101.8000	5.58	−0.11	+0.07	+0.62
Abbey Nat FRN	02/02	5.587	AA	99.9548	5.00	−	+0.16	+0.20
SFR								
EIB	01/08	3.750	AAA	104.0264	3.21	+0.02	+0.07	+0.93
Brit Columbia	02/02	3.250	AA	104.1033	1.75	+0.01	−0.19	+0.23
Hydro−Quebec	05/01	6.750	n/a	108.8934	2.32	+0.01	−0.26	+1.02
Gen Elect.	09/01	1.280	n/a	99.7352	1.31	+0.01	−0.23	+0.01
YEN								
IBRD (World Bk)	03/02	5.250	AAA	114.2069	0.34	−0.03	−0.11	−0.02
Spain (Kingdom)	03/02	5.750	AA+	115.6247	0.38	−0.03	−0.12	−
Cred Foncier	*08/02*	*4.750*	*A*	*112.6236*	*0.85*	*−0.03*	*−0.08*	*+0.49*
Italy (Rep of)	07/99	0.516	AA	100.0162	0.06	−0.01	−0.13	−
A$								
IBRD (World Bk)	02/08	6.000	AAA	102.8515	5.58	+0.04	−0.10	+0.21
Nw Sth Wales Tr	05/06	6.500	n/a	105.0191	5.62	+0.05	−0.11	+0.36
S. Aus Gov Fin	08/03	7.750	AA	107.9327	5.57	+0.06	−0.14	+0.57
GMAC Aust	05/01	9.000	n/a	107.0468	5.33	+0.04	−0.24	+0.65

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

INTEREST RATE SWAPS

[illegible]

UK BONDS

FTSE Actuaries Government Securities

Price Indices UK Gilts	Mon Apr 19	Day's chge %	Accrued interest	xd adj ytd	Total Return	Yield	Duration Years	% Weight
1 Up to 5 years (15)	121.18	+0.01	2.58	2.25	1209.06	4.85	2.29	33.44
2 5-10 years (11)	169.89	+0.07	2.79	2.41	1334.99	4.86	5.81	29.59
[illegible]								

UK Indices

Index-linked	Mon Apr 19	Day's chge %	Accrued interest	xd adj ytd	Total Return	% Weight
1 Up to 5 years (2)	225.87	−0.07	1.51	1.26	1178.51	14.88
2 Over 5 years (9)	[illegible]					

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

هكذا من الاصل

CURRENCIES & MONEY

Yen's climb knocks euro to new low

MARKETS REPORT

By Alan Beattie and Christopher Swann

The yen rose against the dollar and euro yesterday as continued strength in Japanese stocks suggested that capital flows would keep it well supported.

By the close of London trading yesterday the yen was at Y118.1 against the dollar and Y125.3 against the euro.

The yen's rise against the euro again pushed the European currency lower. The euro hit another lifetime low against the dollar and sterling yesterday, closing at the end of the London session at $1.061 against the US currency and £0.653 against the pound.

The weakness of the euro was not helped by comments from various officials playing down the importance of the currency's recent level.

Dominique Strauss-Kahn, the French finance minister, said in an interview over the weekend that he saw no problem with the recent depreciation of the currency.

■ The yen's rise against the dollar may have had such a large effect on the euro because of a perceived asymmetry in the markets.

Many analysts have said that the fear that the Bank of Japan will intervene has put a floor under the dollar, meaning that the euro has suffered disproportionately from the yen's recent strength.

Derek Halpenny, currency analyst at the Bank of Tokyo-Mitsubishi in London, said that the probable trigger-point for Bank of Japan intervention may have fallen. "In earlier episodes the market focused on Y110 as the key level, but now a breach of Y115 could well mean intervention," he added.

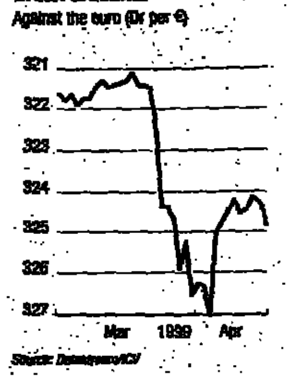
■ Uncertainty over the duration of the Kosovo conflict continued to weigh on the Greek drachma yesterday, which slid beneath last week's resistance point of Dr325 against the embattled euro to close at Dr325.18.

The latest slide was triggered by finance ministry suggestions that a protracted crisis could trim more than 0.2 percentage points off 1999 GDP growth, previously forecast at 3.5 per cent. But barring any escalation of the conflict, analysts expect the drachma to firm.

"Any move below Dr326 would most likely spark renewed intervention," said James Daniel of Credit Suisse First Boston in London. "The imposition of rather clumsy credit controls is a measure of the central bank's concern to keep inflation under control."

Greek drachma

Against the euro (Dr per €)



Source: Datastream/ICV

Overall market reaction has been relatively muted, he added, with the drachma falling just over 1 per cent since the start of the conflict.

■ The Swedish krona yesterday crept higher against the euro, with some analysts saying it could strengthen further.

The krona closed up at the end of London trading at SKr8.891 against the euro, having opened around SKr8.886.

Stewart Newnham, currency strategist at Commerzbank, departed from market consensus yesterday by predicting an appreciation of the krona to SKr8.50 against the euro. "The krona has lagged the rally of commodity currencies led by the Australian and Canadian dollars," he said. A conviction that Sweden is destined to join the next wave of European Monetary Union, he argued, had caused the krona to shadow the euro despite its strong correlation to commodity prices.

With over 25 per cent of Swedish exports based on commodities, he added, it is only a matter of time before fundamentals reassert themselves. "A rise in desired inventory levels, fuelled by increased industrial demand, suggests that the rally in commodities will be strong and sustained."

The fact that the krona had weathered the resignation of the finance minister and a fall in interest rates to below euro-zone levels reinforced the impression of a robust performance, he added.

Others were less convinced. Joe Prendergast, head of global foreign exchange research at Credit Suisse First Boston in London, was neutral about the krona. "Commodity price rises have already been discounted," he said.

■ POUND IN NEW YORK

Apr 19	—Latest—	— Prev. close —
£ spot	1.6070	1.6135
1 mth	1.6065	1.6130
3 mth	1.6060	1.6124
1 yr	1.6088	1.6127

■ OTHER CURRENCIES

Apr 19	£	$
Czech Rp	57.2711 - 57.3811	35.5390 - 35.5750
Hungary	381.394 - 381.929	236.870 - 236.870
Iran	4837.20 - 4834.50	3000.00 - 3000.00
Kuwait	0.4918 - 0.4926	0.3052 - 0.3055
Peru	5.3872 - 5.3935	3.3430 - 3.3450
Poland	6.4557 - 6.4688	4.0080 - 4.0119
Russia	40.4487 - 40.6325	25.1000 - 25.2000
U.A.E.	5.9187 - 5.9225	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Apr 19		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria*	(Sch)	20.8998	+0.1517	900 - 095	20.9750	20.7490	20.8536	2.7	20.7625	2.6	20.3826	2.5	102.1
Belgium*	(BFr)	61.2701	+0.4446	414 - 987	61.4910	60.8310	61.1348	2.6	60.868	2.6	59.754	2.5	101.5
Denmark	(DKr)	11.2895	+0.0798	844 - 945	11.3327	11.2080	11.269	2.2	11.2265	2.2	11.0586	2.0	104.6
Finland*	(FM)	9.0307	+0.0658	264 - 349	9.0630	8.9660	9.0107	2.7	8.9713	2.8	8.8072	2.5	80.2
France*	(FFr)	9.9630	+0.0723	583 - 676	9.9989	9.8914	9.941	2.6	9.8976	2.8	9.7165	2.5	104.7
Germany*	(DM)	2.9706	+0.0215	692 - 720	2.9818	2.9480	2.9641	2.8	2.9512	2.6	2.8971	2.5	102.3
Greece	(Dr)	493.902	+4.5250	522 - 281	495.781	489.407	495.617	-4.2	498.858	-4.0	508.927	-3.2	61.8
Ireland*	(I£)	1.1982	+0.0087	958 - 967	1.2005	1.1876	1.1935	2.7	1.1884	2.6	1.1686	2.5	91.7
Italy*	(L)	2940.89	+21.3400	952 - 227	2951.48	2919.79	2934.39	2.7	2921.59	2.6	2868.12	2.5	74.7
Luxembourg*	(LFr)	61.2701	+0.4446	414 - 987	61.4910	60.8310	61.1348	2.6	60.868	2.6	59.754	2.5	101.5
Netherlands*	(Fl)	3.3471	+0.0243	455 - 487	3.3591	3.3230	3.3397	2.6	3.3252	2.6	3.2644	2.5	100.7
Norway	(NKr)	12.5555	+0.0450	471 - 638	12.6163	12.4788	12.5721	-1.6	12.5869	-1.1	12.5858	-0.2	95.0
Portugal*	(Es)	304.501	+2.2100	359 - 644	305.597	302.322	303.829	2.6	302.503	2.6	296.966	2.5	91.2
Spain*	(Pta)	252.715	+1.8340	596 - 833	253.620	250.900	252.157	2.6	251.056	2.6	246.482	2.5	76.0
Sweden	(SKr)	13.5033	+0.0844	915 - 151	13.5493	13.3942	13.4781	2.2	13.4245	2.3	13.205	2.2	81.6
Switzerland	(SFr)	2.4320	+0.0154	305 - 334	2.4412	2.4147	2.4233	4.3	2.4061	4.3	2.3342	4.0	105.1
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	103.9
Euro	(€)	1.5189	+0.0111	181 - 196	1.5244	1.5079	1.5155	2.6	1.5089	2.6	1.4813	2.5	-
SDR†	-	1.186460	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6114	-0.0022	109 - 118	1.6231	1.6108	-	-	-	-	-	-	-
Brazil	(R$)	2.6904	-0.0013	880 - 927	2.7118	2.6670	-	-	-	-	-	-	-
Canada	(C$)	2.3897	-0.0108	882 - 912	2.4045	2.3833	2.3885	0.6	2.3859	0.6	2.3764	0.6	79.4
Mexico	(New Peso)	15.1523	-0.2165	400 - 646	15.3683	15.1324	15.3555	-16.1	15.7534	-15.9	17.9215	-18.3	-
USA	($)	1.6120	-0.0022	115 - 124	1.6237	1.6112	1.6115	0.4	1.6108	0.3	1.6117	0.0	108.2
Pacific/Middle East/Africa													
Australia	(A$)	2.4733	-0.0220	716 - 749	2.4965	2.4710	2.4723	0.5	2.4703	0.5	2.4642	0.4	83.7
Hong Kong	(HK$)	12.4895	-0.0181	856 - 934	12.5793	12.4841	12.4858	0.4	12.4876	0.1	12.6226	-1.1	-
India	(Rs)	69.0721	+0.1074	286 - 155	69.5760	68.9150	69.3768	-5.3	70.1131	-6.0	74.1984	-7.4	-
Indonesia	(Rupiah)	13882.76	-100.07	861 - 695	14033.10	13853.50	14144.47	-24.4	14698.34	-24.1	16801.51	-21.2	-
Israel	(Shk)	6.5011	-0.0005	937 - 085	6.5080	6.4925	-	-	-	-	-	-	-
Japan	(Y)	190.307	-0.3380	173 - 441	191.250	189.640	189.492	5.1	187.857	5.1	180.892	4.9	132.8
Malaysia‡‡	(M$)	6.1254	-0.0086	546 - 589	6.1692	6.1234	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.9375	-0.0195	348 - 402	2.9621	2.9398	2.9356	0.8	2.9322	0.7	2.9257	0.4	94.8
Philippines	(Peso)	61.1736	-0.4889	147 - 324	61.4500	60.8950	61.438	-5.2	61.9304	-4.9	64.1866	-4.9	-
Saudi Arabia	(SR)	6.0452	-0.0085	431 - 473	6.0832	6.0428	6.0494	-0.2	6.0521	-0.5	6.1061	-1.0	-
Singapore	(S$)	2.7489	-0.0080	473 - 504	2.7688	2.7428	2.7391	4.3	2.7227	3.8	2.6686	2.9	-
South Africa	(R)	9.7668	-0.0889	560 - 776	9.8802	9.7500	9.8383	-8.8	9.9743	-8.5	10.5587	-8.1	-
South Korea	(Won)	1941.03	-23.3700	025 - 181	1962.41	1938.50	-	-	-	-	-	-	-
Taiwan	(T$)	52.7890	-0.2439	718 - 061	53.1713	52.7414	52.7564	0.7	52.7344	0.4	53.0209	-0.4	-
Thailand	(Bt)	60.0774	-0.3502	800 - 748	61.1330	59.9650	60.0022	1.5	60.0014	0.5	60.5497	-0.8	-

† Rates for Apr 16. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. * EMU member. The exchange rates printed in this table are also available on the internet at http://www.FT.com.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Apr 19		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria*	(Sch)	12.9658	+0.1121	631 - 680	12.9785	12.8801	12.941	2.3	12.8899	2.3	12.6471	2.5	101.9
Belgium*	(BFr)	38.0099	+0.3284	027 - 171	38.0420	37.7010	37.9379	2.3	37.788	2.3	37.0763	2.5	101.7
Denmark	(DKr)	7.0036	+0.0592	024 - 048	7.0116	6.9470	6.993	1.8	6.9708	1.9	6.8616	2.0	103.9
Finland*	(FM)	5.6024	+0.0485	013 - 034	5.6071	5.5568	5.5918	2.3	5.5697	2.3	5.4648	2.5	79.7
France*	(FFr)	6.1807	+0.0534	795 - 819	6.1859	6.1304	6.169	2.3	6.1446	2.3	6.0289	2.5	104.2
Germany*	(DM)	1.8429	+0.0159	425 - 432	1.8444	1.8279	1.8394	2.3	1.8321	2.3	1.7976	2.5	102.7
Greece	(Dr)	306.400	+3.2300	250 - 550	306.840	303.300	307.56	-4.5	309.7	-4.3	316.4	-3.3	61.5
Ireland*	(I£)	1.3476	-0.0117	473 - 478	1.3586	1.3464	1.3502	-2.3	1.3555	-2.4	1.3816	-2.5	-
Italy*	(L)	1824.43	+15.7660	409 - 478	1825.98	1809.60	1820.98	2.3	1813.78	2.3	1779.62	2.5	74.6
Luxembourg*	(LFr)	38.0099	+0.3284	027 - 171	38.0420	37.7010	37.9379	2.3	37.788	2.3	37.0763	2.5	101.7
Netherlands*	(Fl)	2.0764	+0.0179	760 - 768	2.0782	2.0595	2.0725	2.3	2.0643	2.3	2.0254	2.5	100.9
Norway	(NKr)	7.7890	+0.0387	860 - 920	7.7975	7.7294	7.8017	-2.0	7.816	-1.4	7.8092	-0.3	93.9
Portugal*	(Es)	188.902	+1.6320	867 - 938	189.060	187.370	188.544	2.3	187.798	2.3	184.262	2.5	91.88
Spain*	(Pta)	156.776	+1.3550	746 - 805	156.910	155.500	156.479	2.3	155.881	2.3	152.925	2.5	75.7
Sweden	(SKr)	8.3770	+0.0640	720 - 820	8.3827	8.3029	8.364	1.9	8.3342	2.0	8.1935	2.2	81.3
Switzerland	(SFr)	1.5087	+0.0116	082 - 092	1.5105	1.4960	1.5037	3.9	1.4937	4.0	1.4483	4.0	106.0
UK	(£)	1.6120	-0.0022	115 - 124	1.6237	1.6112	1.6115	0.4	1.6108	0.3	1.6117	0.0	102.9
Euro	(€)	1.0613	-0.0093	611 - 615	1.0700	1.0599	1.0633	-2.3	1.0675	-2.4	1.088	-2.5	-
SDR†	-	0.73707	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9996	-	995 - 996	0.9997	0.9995	-	-	-	-	-	-	-
Brazil	(R$)	1.6690	+0.0015	680 - 700	1.6705	1.6675	-	-	-	-	-	-	-
Canada	(C$)	1.4825	-0.0046	820 - 830	1.4835	1.4780	1.4822	0.2	1.4812	0.3	1.4746	0.5	79.2
Mexico	(New Peso)	9.4000	-0.1210	950 - 050	9.4100	9.3900	9.529	-16.5	9.78	-16.2	11.12	-18.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	109.0
Pacific/Middle East/Africa													
Australia	(A$)	1.5343	-0.0115	337 - 349	1.5492	1.5314	1.5339	0.3	1.5334	0.2	1.5328	0.1	83.4
Hong Kong	(HK$)	7.7481	-0.0004	478 - 483	7.7485	7.7470	7.7482	0.0	7.7528	-0.2	7.8321	-1.1	-
India	(Rs)	42.8500	+0.1262	350 - 650	43.0800	42.7800	43.0525	-5.7	43.5275	-5.3	46.0375	-7.4	-
Indonesia	(Rupiah)	8600.00	-50.00	500 - 500	8700.00	8450.00	8777.5	-24.8	9125	-24.4	10425	-21.2	-
Israel	(Shk)	4.0331	+0.0053	296 - 365	4.0380	4.0206	-	-	-	-	-	-	-
Japan	(Y)	118.060	-0.0450	010 - 110	118.470	117.580	117.59	4.8	116.625	4.9	112.245	4.9	134.2
Malaysia‡	(M$)	3.8000	-	500 - 500	3.8000	3.8000	-	-	-	-	-	-	-
New Zealand	(NZ$)	1.8223	-0.0095	212 - 235	1.8376	1.8152	1.8205	1.2	1.8188	0.8	1.8192	0.2	-
Philippines	(Peso)	37.9500	-0.2500	000 - 000	38.1500	37.7800	38.125	-5.8	38.4475	-5.2	39.8265	-4.9	-
Saudi Arabia	(SR)	3.7503	-	500 - 505	3.7507	3.7489	3.7522	-0.6	3.7573	-0.7	3.7888	-1.0	-
Singapore	(S$)	1.7053	+0.0005	048 - 058	1.7085	1.6997	1.6998	3.9	1.6903	3.5	1.6558	2.9	-
South Africa	(R)	6.0590	-0.0473	540 - 640	6.0900	6.0450	6.1052	-9.2	6.1923	-8.8	6.5515	-8.1	-
South Korea	(Won)	1204.15	-12.8000	400 - 430	1217.00	1203.70	-	-	-	-	-	-	-
Taiwan	(T$)	32.7485	-0.1055	470 - 500	33.7800	32.6900	32.7385	0.4	32.7385	0.1	32.8985	-0.5	-
Thailand	(Bt)	37.2700	-0.1650	200 - 200	37.3800	37.2000	37.235	1.1	37.25	0.2	37.57	-0.8	-

† SDR rate per $ for Apr 16. ‡ Official rate set by Malaysian government. The WM/Reuters rate for the valuation of capital assets is 4.75 MYR/USD, a discount of 20% on the official rate. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & Euro are quoted in US currency. J.P. Morgan nominal indices Apr 16: Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS 4pm CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T. * EMU member. The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

Apr 19	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.50	3.00
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	4.50	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-

■ $ LIBOR BBA London: [illegible]

INTERNATIONAL CURRENCY RATES: [illegible]

■ THREE MONTH EURIBOR FUTURES (MATIF): [illegible]

■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100 - rate: [illegible]

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100 - rate: [illegible]

■ EURIBOR OPTIONS (LIFFE) €1m 100 - rate: [illegible]

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100 - rate: [illegible]

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m 100 - rate: [illegible]

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m 100 - rate: [illegible]

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr1m 100 - rate: [illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Apr 19		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	€
Belgium*	(BFr)	100	18.43	16.26	4.848	1.952	4800	5.463	20.49	497.0	412.5	22.04	3.969	1.632	3.900	2.631	310.6	2.479
Denmark	(DKr)	54.27	10	8.825	2.631	1.060	2605	2.965	11.12	269.7	223.9	11.96	2.154	0.886	2.117	1.428	168.6	1.345
France*	(FFr)	61.50	11.33	10	2.982	1.201	2952	3.360	12.60	305.6	253.7	13.55	2.441	1.004	2.399	1.618	191.0	1.525
Germany*	(DM)	20.63	3.800	3.354	1	0.403	990.0	1.127	4.227	102.5	85.07	4.546	0.819	0.337	0.804	0.543	64.06	0.511
Ireland*	(I£)	51.22	9.438	8.329	2.483	1	2459	2.798	10.50	254.6	211.3	11.29	2.033	0.836	1.998	1.348	159.1	1.270
Italy*	(L)	2.083	0.384	0.339	0.101	0.041	100	0.114	0.427	10.35	8.593	0.459	0.083	0.034	0.081	0.055	6.471	0.052
Netherlands*	(Fl)	18.31	3.373	2.977	0.888	0.357	878.6	1	3.751	90.97	75.50	4.034	0.727	0.299	0.714	0.482	56.85	0.454
Norway	(NKr)	48.80	8.992	7.935	2.366	0.953	2342	2.666	10	242.5	201.3	10.75	1.937	0.796	1.903	1.284	151.6	1.210
Portugal*	(Es)	20.12	3.708	3.272	0.976	0.393	965.6	1.099	4.123	100	82.99	4.435	0.799	0.328	0.785	0.529	62.50	0.499
Spain*	(Pta)	24.24	4.467	3.942	1.175	0.473	1164	1.324	4.968	120.5	100	5.343	0.962	0.396	0.946	0.638	75.31	0.601
Sweden	(SKr)	45.37	8.361	7.378	2.200	0.886	2178	2.479	9.298	225.5	187.2	10	1.801	0.741	1.770	1.194	140.9	1.125
Switzerland	(SFr)	25.19	4.642	4.097	1.221	0.492	1209	1.376	5.163	125.2	103.9	5.552	1	0.411	0.983	0.663	78.25	0.625
UK	(£)	61.27	11.29	9.963	2.971	1.196	2941	3.347	12.56	304.5	252.7	13.50	2.432	1	2.390	1.612	190.3	1.519
Canada	(C$)	25.64	4.724	4.169	1.243	0.501	1231	1.401	5.254	127.4	105.7	5.651	1.018	0.418	1	0.675	79.64	0.636
USA	($)	38.01	7.004	6.181	1.843	0.742	1824	2.076	7.789	188.9	156.8	8.377	1.508	0.620	1.483	1	118.1	0.942
Japan	(Y)	32.20	5.932	5.235	1.561	0.629	1545	1.759	6.598	160.0	132.8	7.096	1.278	0.525	1.256	0.847	100	0.798
Euro	(€)	40.34	7.433	6.560	1.956	0.788	1936	2.204	8.267	200.5	166.4	8.891	1.601	0.658	1.573	1.061	125.3	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100. * EMU member.

■ D-MARK FUTURES (CME) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5479	0.5458	-0.0039	0.5493	0.5451	9,014	33,159
Sep	-	0.5529	-	-	-	20	1,346
Dec	0.5517	0.5517	-0.0045	0.5517	0.5517	30	137

■ JAPANESE YEN FUTURES (CME) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8553	0.8538	-0.0016	0.8570	0.8500	27,354	81,691
Sep	0.8636	0.8636	-0.0023	0.8636	0.8636	65	1,857
Dec	-	0.8748	-0.0018	-	0.8748	1,018	1,459

■ SWISS FRANC FUTURES (CME) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6717	0.6730	-0.0022	0.6727	0.6675	13,628	66,467
Sep	0.6752	0.6792	-0.0028	0.6752	0.6749	69	311
Dec	-	0.6850	-	-	0.6816	10	14

■ STERLING FUTURES (CME) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6122	1.6160	+0.0024	1.6224	1.6110	7,399	63,779
Sep	-	1.6150	+0.0020	1.6150	-	69	1,251
Dec	-	1.6128	-	-	-	1	30

UK INTEREST RATES

LONDON MONEY RATES: [illegible]

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%: [illegible]

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%: [illegible]

EMS EUROPEAN CURRENCY UNIT RATES: [illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound): [illegible]

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 (¢ per DM): [illegible]

■ THREE MONTH EURODOLLAR (CME) $1m points of 100%: [illegible]

■ US TREASURY BILL FUTURES (CME) $1m per 100%: [illegible]

BASE LENDING RATES

Adam & Company	5.25	Exeter Trust Limited	6.25	Smith & Williamson	5.25
Allied Irish Bank (GB)	5.25	●Robert Fleming & Co	5.25	Sun Bank	5.25
●Henry Ansbacher	5.25	Habib Bank AG Zurich	5.25	TSB	5.25
Banco Bilbao Vizcaya	5.25	Heritable & Gen Inv Bk	5.25	United Bank of Kuwait	5.50
Bank of Cyprus	5.25	C. Hoare & Co	5.25	Unity Trust Bank Plc	5.25
Bank of Ireland	5.25	●Hambros Bank	5.25	Whiteaway Laidlaw	5.25
Bank of India	5.25	Hongkong & Shanghai	5.25	Yorkshire Bank	5.25
Bank of Scotland	5.25	Investec Bank (UK) Ltd	5.25		
Barclays Bank	5.25	Julian Hodge Bank	5.25	● Members of London Investment Banking Association	
Bkt Bk of Mid East	5.25	●Leopold Joseph & Sons	5.25		
●Brown Shipley & Co Ltd	5.25	Lloyds Bank	5.25		
Citibank NA	5.25	Midland Bank	5.25		
Clydesdale Bank	5.25	NatWestminster	5.25		
The Co-operative Bank	5.25	●Rea Brothers	5.25		
Coutts & Co	5.25	Royal Bk of Scotland	5.25		
Cyprus Popular Bank	5.25	Scottish Widows Bank	5.25		
Duncan Lawrie	5.25	●Singer & Friedlander	5.25		

Nico Colchester journalism fellowship

Applications are invited from young European journalists and would-be journalists for the 1999 Nico Colchester fellowship. This consists of a three-month internship at the Economist in the autumn of this year, a bursary of £4,000 to cover travel and accommodation, and a small weekly stipend from The Economist.

The fellowship is established in memory of Nico Colchester, who died in 1996 at the age of 49, after an outstanding career at the Financial Times, The Economist and the Economist Intelligence Unit. Nico was one of Britain's finest writers on foreign, especially European, affairs as well as technology and business.

The trustees of the Nico Colchester foundation will award the fellowship to the applicant, from the European Union country other than Britain, who submits the best, specially-written 1,000-word article, in English, on a topic relevant to political, economic, technological or business issues in Europe. As Nico's work was characterised by its originality and humour, preference will be given to applicants who reflect those traits.

Entries, by the closing date of May 31st 1999, should be sent with a CV and covering letter, to: The Editor (Nico Colchester prize), The Economist, 25 St. James's Street, London SW1A 1HG. E-mail: be@economist.com

This prize is supported by Halifax plc, the Financial Times, The Economist, B.A.T. plc and 3i. The 2000 fellowship will consist of an internship at the Financial Times

Revival seen in commodity producer shares

By Stephen Wyatt in Sydney, Edward Alden in Toronto and Greta Steyn in Johannesburg

The equity markets have decided that commodities have bottomed. Sydney, Johannesburg and Toronto, home to big resource companies, are seeing a revival in commodity producer equities as international institutions scramble to correct their underweight positions.

The Australian All Ordinaries index closed at its fifth consecutive record high yesterday, driven by resource stocks such as BHP, Western Mining and Rio Tinto. The Other Metals Index, which represents base metal stocks, rose 24 per cent over the past week.

BHP reached A$17 yesterday, its highest since September 1997 and up more than 35 per cent over the past week. Western Mining Corporation rose 36 per cent in the past week and MIM Holdings 31 per cent, while Rio Tinto hit a record close yesterday of A$26.13.

Resource stocks in other markets are also strong. Betting on cyclical stocks intensified on the Toronto Stock Exchange last week with metal, gold, forest product and energy stocks largely outpacing price increases in the underlying commodities.

The Toronto metals composite index rose 17.3 per cent while paper and forest products stocks were up more than 16 per cent.

The long drought for resource stocks on the Johannesburg Stock Exchange has also come to an end, with investors pouring into platinum, steel, paper and pulp, chemicals and plastics shares.

Demand for resources stocks, led by foreign investors, has lifted the JSE's sector index about 18 per cent in little more than a week.

Local fund managers were caught by surprise by the rush into commodity stocks, although some shares, such as steel producer Iscor, have been attracting foreign interest for some weeks.

While some argued that the rise was due to optimism that the worst of the global economic crisis has passed, others warned that market momentum has prompted investors to push share prices to levels higher than warranted.

An analyst said resource stocks typically started running eight to 12 months before an upturn in the cycle was expected.

This sudden swing to resource stocks is by institutions, especially US funds, resulting from their view that resource stocks have fallen to such low levels that most of the bad news about the collapse in Asian growth and the slowdown in global growth has been discounted.

"A remarkable divergence has emerged between the views of those actually involved in the buying and selling of metals and institutional investors," said Jim Lennon, analyst at Macquarie Bank.

He points out that the trade has become more negative about 1999 demand, while institutional investors have become "massively more positive".

See Leader page

Cocoa future contracts at six-year lows

MARKETS REPORT

By Paul Solman, Robert Corzine and Gillian O'Connor

Cocoa futures are trading at their lowest for six years and are expected to take further losses this week.

The most actively traded contract on the London International Financial Futures and Options Exchange has lost £200 a tonne since the beginning of the year, and is standing at around £750. This time last year it was at £1,200.

Analysts said there was little relief in sight, in spite of forecasts that the current 1998-99 season would show a world supply deficit of 65,000 tonnes.

Many chocolate manufacturers, the main cocoa consumers, are adopting a "just-in-time" approach to supplies. "Although there has been a statistical deficit this season, the market is not responding because manufacturers have let their coverage run down and are not buying," said Judith Ganes at Merrill Lynch in New York.

In addition, exports from Ivory Coast, which supplies 40 per cent of the world's cocoa, are plentiful, with record production boosting the crop outlook.

Other leading cocoa producers, such as Ghana, Indonesia and Nigeria, are also expecting bumper crops this year.

Forecasts for next season are even more bearish, with some analysts predicting a world surplus of about 36,000 tonnes.

On the demand side, Russia's economic problems have depressed chocolate consumption, and there has been a knock-on effect at big processing plants in Germany that export to Russia.

May cocoa ended at £766 a tonne yesterday, £4 higher than Friday's close.

Coffee prices rose on reports of near-freezing overnight temperatures in Brazil that could damage coffee trees. Liffe's May robusta coffee closed at $1,490 a tonne, up $13 on Friday's finish. August white sugar was down 90 cents at $179 a tonne in late trading.

Oil prices continued their upward trend yesterday, with the bellwether Brent Blend for June delivery hitting a 15-month high. In late trading on London's International Petroleum Exchange the June Brent futures contract was quoted at $16.02 a barrel, 33 cents up on Friday's close.

Brent was supported by buying activity on the New York Mercantile Exchange, where the May and June crude futures contracts moved higher in response to a refinery fire in Indiana.

Jet fuel prices in Europe continued to firm as a result of increased consumption due to the Nato air offensive over Yugoslavia.

With the exception of tin, prices of all the base metals finished yesterday higher on the London Metal Exchange, after a shaky start.

Sentiment was encouraged by the continued strength of mining shares and Rudolf Wolff's technical analysts described the fund-led gains in copper as "encouraging". Aluminium gained strength from copper.

The gold price did precisely nothing after Switzerland took its first step towards selling gold: the afternoon fix on the London bullion market was unchanged from Friday's level. However, the palladium price continued to rise on fresh worries about delays to Russian exports.

Indian sugar growers take Delhi to task over imports

The arrival of 1.4m tonnes has caused a fall in prices, much to the annoyance of domestic producers, writes **Kunal Bose**

Bitter-sweet: imports have a cost advantage of more than Rs1,200 a tonne over locally-grown sugar

India, the world's largest producer and consumer of sugar, is planning to restrict further imports of sugar in the current season (October to September) as traders have already contracted for the import of over 2.2m tonnes.

According to the Indian Sugar Mills Association, the arrival of nearly 1.4m tonnes of foreign sugar from the contracted amount has caused a fall in prices – much to the annoyance of domestic producers.

"As huge imports are made, despite plentiful local production, the Indian industry is set to lose up to Rs15bn ($351m) in 1998-99. *Indian sugar factories*, which are required by law to give 40 per cent of their production to the government at well below the cost of production for distribution through ration shops, must be able to realise good prices in the open market to earn profits. However, this is not happening in the current year due to imports," said O.P. Dhanuka, of the ISMA.

The low prices and mounting stocks at the factories will restrict the industry's ability to clear the cane bills of farmers within the stipulated period of two weeks.

"Our record in settling cane dues so far this season is satisfactory. But the factories are now coming under pressure. Unpaid bills cause considerable economic and social unrest in the captive cane growing areas of sugar factories," said an official.

Trade officials say that while Pakistan sold nearly 800,000 tonnes of sugar to India, the other big suppliers are China and Brazil.

"Pakistan gives a handsome subsidy to export. The devaluation of the Real and *the collapse in freight* have helped Brazilian exporters. We don't know much about Chinese production costs. Thailand has now targeted the Indian market, where it has sold about 50,000 tonnes," said Mr Dhanuka.

Trade officials said sugar imports for the current season must be completed by the end of June as the monsoon would set in by then.

In one year, the Indian federal government raised the customs duty on sugar from 5 per cent to 27.5 per cent. There is also a duty of Rs850 a tonne to offset excise duty on locally-produced sugar. Even after the revision, Indian import duty on sugar is the lowest in the world.

"From procurement of cane to distribution of sugar, the government exercises rigorous control over the domestic industry. It is also subject to a variety of taxes besides excise duty. All this makes importing a highly rewarding proposition. But the government has seen our point and we expect the customs duty to be raised to at least 40 per cent," said Mr *Dhanuka*.

"We also want the government to requisition 40 per cent of imported sugar for public distribution at lower than market price. The other distribution controls on the local industry should be extended to imported sugar. We want a level playing field for the domestic industry," he added.

The imported sugar has a cost advantage of more than Rs1,200 a tonne over locally-produced sugar. This has got much to do with the relatively high cost of local production.

Experts say consolidation of capacity through mergers will improve operational efficiency but the government *must also give up the practice* of fixing the minimum cane price, which does not take into account the industry's capacity to pay.

"Not only are the factories paying high prices for cane, but they must also continue with crushing until no cane is left in the field. The recovery of sugar from cane goes down as the summer heat increases. But as the factories cannot stop crushing, their production costs go up. We are not operating in a free environment," said Mr Dhanuka.

As the controversy over imports becomes fierce, India is to produce at least 15.2m tonnes of sugar in the current year against 12.86m *tonnes in 1997-98*.

Production would have been more but for the fall in the recovery of sugar in a number of cane growing states, which received more rain than normal during the last monsoon.

The country opened this season with stocks of 5.4m tonnes. Imports are expected to total 2.5m tonnes. After providing for domestic consumption of 14m tonnes, the country will have end of season stocks that will take care of domestic demand for more than six months in 1999-2000.

Mr Dhanuka says sugar prices "will collapse next year as production will breach the 1995-96 record of *16.4m tonnes. The government* has fixed the minimum cane price at such an attractive level that farmers will commit a lot of extra land to this plantation crop for the next season".

Industry officials say India can start exporting sugar if it is freed from all controls. However, they also want subsidies for exports, which the government does not want to concede.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1302-3	1322-3
Previous	1295-96	1316-17
High/low		1334/1311
AM Official	1293.5-4.5	1309-10
Kerb close		1333-4
Open int.	n/a	
Total daily turnover	144,930	

ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1175-80	1196-8
Previous	1173-78	1190-95
High/low		1199/1190
AM Official	1165-67	1185-90
Kerb close		1199
Open int.	n/a	
Total daily turnover	4,956	

LEAD ($ per tonne)

	Cash	3 mths
Close	528.5-9.5	532-3
Previous	529.5-30.5	531.5-2.5
High/low		536/529
AM Official	527-28	530-31
Kerb close		536-7
Open int.	n/a	
Total daily turnover	19,411	

NICKEL ($ per tonne)

	Cash	3 mths
Close	5230-40	5310-15
Previous	5185-95	5260-65
High/low		5340/5425
AM Official	5230-35	5310-15
Kerb close		5335-40
Open int.	n/a	
Total daily turnover	32,922	

TIN ($ per tonne)

	Cash	3 mths
Close	5430-40	5440-45
Previous	5455-65	5455-60
High/low		5450/5425
AM Official	5430-35	5435-40
Kerb close		5435-40
Open int.	n/a	
Total daily turnover	11,612	

ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1035.5-6.5	1054.5-5.0
Previous	1032.5-33.5	1051-52
High/low		1056/1046
AM Official	1027.5-28.0	1047.5-48
Kerb close		1055-6
Open int.	n/a	
Total daily turnover	37,750	

COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1504.5-5.5	1544-5
Previous	1504-05	1532-33
High/low		1548/1514
AM Official	1492-93	1523-24
Kerb close		1547
Open int.	n/a	
Total daily turnover	115,495	

LME AM Official £/$ rate: 1.6143
LME Closing £/$ rate: 1.6075
Spot: 1.6083 3 mths: 1.6073 6 mths: 1.6072 9 mths: 1.6075

HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	70.10	+1.45	70.15	68.05	233	350
May	70.40	+1.45	70.50	68.10	13,444	27,057
Jun	70.80	+1.40	70.35	68.70	148	2,150
Jul	71.25	+1.45	71.40	69.05	6,542	15,053
Aug	71.65	+1.50	71.65	70.70	20	1,553
Sep	72.00	+1.50	71.70	69.80	311	5,514
Total					20,951	68,360

PRECIOUS METALS

LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold (Troy oz)	$ price	£ equiv	SFr equiv
Close	283.50-284.00		
Opening	284.40-284.70		
Morning fix	284.850	175.547	267.403
Afternoon fix	284.200	175.889	267.357
Day's High	284.85-285.10		
Day's Low	283.40-283.70		
Previous close			

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.25	6 months	4.11
2 months	4.21	12 months	3.71
3 months	4.18		

Silver Fix	p/troy oz.	US cts equiv.
Spot	313.641	506.500

Silver Lending Rates

1 month	1.75	6 months	0.50
2 months	1.50	12 months	0.25
3 months	1.25		

Gold Coins	$ price	£ equiv.
Krugerrand	285-289	177-179
New Sovereign	67-71	41-43

Precious Metals continued

GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	284.8	+0.7	284.8	283.8	18	109
May	285.5	+0.7	-	-	47	47
Jun	286.3	+0.7	286.5	284.8	27,185	126.9
Aug	288.3	+0.7	288.6	287.2	936	10,183
Oct	290.2	+0.6	290.5	289.8	643	3,879
Dec	292.1	+0.6	292.3	291.2	333	15,518
Total					29,588	197,691

PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	365.3	+2.8	366.0	366.0	6	57
Jul	366.8	+2.9	367.8	364.0	2,029	9,557
Oct	368.1	+2.8	-	-	182	1,377
Jan	368.8	+2.8	-	-	1	141
Total					2,300	11,232

PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	381.20	+9.70	383.00	373.00	-	2,704
Sep	377.20	+9.70	-	-	-	257
Dec	370.20	+9.70	-	-	-	126
Mar	367.20	+9.70	-	-	-	15
Total					61	3,102

SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	516.4	+11.2	-	-	32	167
May	516.0	+11.0	517.0	504.5	11,938	34,270
Jul	517.4	+10.8	518.5	507.0	3,908	26,925
Sep	518.9	+10.7	520.0	509.5	250	6,241
Dec	520.5	+10.5	522.5	513.0	343	10,704
Jan	519.8	+10.5	-	-	-	16
Total					16,763	86,650

ENERGY

CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
May	17.77	+0.44	17.85	17.29	75,445	63,156
Jun	17.68	+0.34	17.80	17.30	94,165	162.1k
Jul	17.56	+0.28	17.69	17.27	21,058	60,592
Aug	17.45	+0.33	17.52	17.14	8,366	39,682
Sep	17.22	+0.27	17.28	16.94	3,785	24,236
Oct	17.10	+0.32	17.11	16.78	2,675	21,618
Total					221,259	827,957

CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	16.02	+0.33	16.10	15.61	29,463	118.4k
Jul	15.85	+0.30	15.90	15.46	8,731	48,453
Aug	-	-	15.75	15.38	3,477	18,308
Sep	15.57	+0.22	15.57	15.30	1,012	13,307
Oct	15.44	+0.17	15.50	15.20	915	7,647
Nov	15.29	+0.10	15.29	15.19	33	5,587
Total						n/a

HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
May	43.80	+0.16	44.15	43.15	14,705	37,269
Jun	44.15	+0.48	44.55	43.55	9,090	30,124
Jul	44.85	+0.58	44.90	44.00	4,307	18,472
Aug	45.20	+0.63	45.35	44.95	1,946	17,915
Sep	45.95	+0.73	45.95	45.40	536	9,899
Oct	46.55	+0.68	46.70	46.35	390	6,406
Total					33,365	173,670

GAS OIL IPE ($/tonne)

	Latest price	Day's change	High	Low	Vol	Open int
May	132.75	+3.25	134.00	130.00	8,013	39,868
Jun	134.00	+3.00	135.00	131.75	4,617	23,236
Jul	135.50	+3.00	136.00	133.25	1,215	11,367
Aug	137.00	+3.00	137.75	134.75	244	8,457
Sep	138.25	+2.75	139.25	136.50	453	7,354
Oct	139.00	+2.25	139.25	137.75	216	3,468
Total					17,000	141,868

NATURAL GAS IPE (1,000 therms; pence per therm)

	Latest price	Day's change	High	Low	Vol	Open int
May	9.210	-0.040	9.210	9.200	85	2,335
Jun	9.190	-0.030	9.210	9.200	55	1,940
Total					n/a	n/a

NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
May	2.170	+0.046	2.180	2.085	23,823	61,405
Jun	2.200	+0.042	2.220	2.115	13,753	31,579
Jul	2.215	+0.042	2.220	2.140	6,403	22,319
Aug	2.220	+0.031	2.230	2.165	3,197	17,691
Sep	2.225	+0.026	2.225	2.175	2,493	19,525
Oct	2.250	+0.021	2.250	2.200	2,468	15,403
Total					67,259	220,258

UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
May	53.50	+0.73	53.90	52.65	17,043	37,539
Jun	53.80	+0.71	54.15	52.90	9,520	28,708
Jul	53.70	+0.76	53.90	52.70	2,539	19,591
Aug	53.10	+0.70	53.20	52.70	1,148	8,218
Sep	52.10	+0.60	52.20	51.30	790	5,708
Oct	50.50	+0.50	50.50	50.50	1	2,877
Total					31,121	118,072

GRAINS AND OIL SEEDS

WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	76.80	-0.45	77.25	76.75	408	1,958
Jul	77.80	-0.70	78.45	77.80	326	2,672
Sep	74.80	-0.90	-	-	-	168
Nov	76.50	-0.90	76.80	76.50	50	3,144
Jan	78.50	-0.90	78.75	78.75	10	630
Mar	80.20	-0.90	80.20	80.20	6	118
Total					809	8,729

WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	252.25	-4.25	256.00	250.00	5,968	30,045
Jul	263.25	-3.75	266.50	261.00	18,744	64,507
Sep	273.75	-4.25	276.75	272.00	1,310	7,085
Dec	288.25	-3.50	292.00	286.25	1,656	17,956
Mar	298.00	-3.50	300.00	297.00	179	3,873
May	306.00	-3.00	-	-	5	20
Total					27,861	123,866

MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	220.50	+2.50	221.75	217.75	14,686	80,876
Jul	228.25	+2.75	227.75	223.00	22,005	122,421
Sep	232.50	+2.50	234.00	230.50	1,042	27,437
Dec	241.00	+2.25	243.00	238.00	10,582	88,103
Mar	250.50	+2.25	252.00	249.00	810	14,948
May	254.75	+2.00	255.50	253.25	115	1,403
Total					49,199	341,424

BARLEY LIFFE (100 tonnes, £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	75.25	-0.25	75.25	75.25	32	129
Sep	73.75	-0.75	-	-	-	45
Nov	75.75	-0.75	76.00	75.75	45	397
Jan	77.75	-0.75	-	-	-	20
Mar	79.75	-0.75	-	-	-	-
Total					77	591

SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	488.00	+1.25	490.75	484.00	13,175	43,583
Jul	497.25	+1.50	499.75	492.50	20,196	56,842
Aug	500.25	+2.00	502.50	495.50	363	15,369
Sep	502.75	+1.75	505.00	499.00	237	7,879
Nov	512.25	+1.00	514.50	507.50	3,541	39,237
Jan	522.75	+0.75	524.00	-	169	48.7.2
Total					37,724	168,117

SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
May	19.15	-0.17	19.33	19.00	8,662	32,158
Jul	19.52	-0.11	19.68	19.30	8,642	40,307
Aug	19.70	-0.10	19.78	19.52	454	8,955
Sep	19.88	-0.06	19.92	19.65	141	8,251
Oct	19.95	-0.13	20.10	19.80	120	5,326
Dec	20.20	-0.16	20.35	20.05	946	23,026
Total					19,667	134,548

SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
May	134.9	+1.3	135.8	133.0	9,152	33,162
Jul	137.0	+1.4	137.9	135.2	6,076	33,348
Aug	138.3	+1.2	138.7	136.7	735	12,054
Sep	140.0	+1.9	140.2	138.0	533	9,999
Oct	140.9	+1.3	141.8	139.2	231	5,397
Dec	144.0	+1.3	145.0	142.4	1,393	17,196
Total					18,596	112,982

POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	170.0	-20.0	179.9	170.0	17	79
Jun	180.0	-20.0	-	-	-	-
Nov	75.0	-	-	-	-	-
Mar	100.0	-	-	-	-	-
Apr	119.0	+1.0	119.5	118.0	56	321
Total					73	400

FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	940	+10	940	930	28	1,006
May	950	+5	950	945	18	397
Jun	890	+5	-	-	-	4
Jul	860	+20	860	880	2	559
Oct	960	-	-	-	-	456
Total					48	2,474

	Close	Prev
BFI	n/a	887

PULP AND PAPER

PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	472.00	-	473.00	472.00	20	552
Sep	492.00	-3.00	496.00	492.00	11	175
Total						

FUTURES DATA
All futures data supplied by CMS.

Minor Metals from Metal Bulletin
European free market, $ per pound in warehouse. **Antimony:** 99.65%, $ per tonne, 1,230-1,340 (1,250-1,350). **Bismuth:** MB Free Mkt. 3.35-3.50 (3.15-3.25). **Cadmium:** min. 99.95%, cents a pound, 20-24. **Cobalt:** $ per pound, min. 99.8%, 15.60-16.50, min. 99.3%, 13.20-14.30 (13.50-14.50). **Mercury:** min. 99.99%, $ per 76 pound flask, 135-143. **Molybdenum:** drummed molybdic oxide, 2.60-2.68 (2.70-2.80). **Selenium:** min. 99.5%, 1.70-2.60 (1.50-2.40). **Tungsten ore:** $ per tonne, 33-44. **Uranium:** Nuexco, unrestricted exchange value 8.50. **Vanadium:** min. 98%, 1.95-2.05 (2.03-2.12).

SOFTS

COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	750	-2	756	735	2,860	33,484
Jul	772	-3	778	759	1,413	20,237
Sep	792	-5	798	780	1,170	30,928
Dec	820	-5	826	809	808	28,249
Mar	844	-6	849	837	97	18,033
May	867	-5	869	863	234	16,718
Total					8,911	178,479

COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
May	1066	+12	1082	1062	5,466	4,677
Jul	1101	+11	1112	1095	7,266	30,380
Sep	1133	+10	1138	1125	1,874	11,838
Dec	1176	+8	1178	1173	85	8,703
Mar	1216	+8	1216	1210	82	8,632
May	1241	+8	1248	1244	5	3,953
Total					14,793	88,883

COCOA (ICCO) (SDR's/tonne)

Apr 19	Price	Prev. day
Daily	894.32	902.53

COFFEE LIFFE (5 tonnes, $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1490	+13	1495	1470	1,823	24,140
Jul	1485	+10	1490	1470	1,858	22,209
Sep	1499	+9	1502	1486	821	8,392
Nov	1513	+8	1515	1509	30	2,697
Jan	1516	+6	-	-	-	726
Mar	1518	+4	-	-	-	155
Total					4,532	58,318

COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	102.10	+2.60	103.75	100.00	4,532	9,973
Jul	103.25	+2.60	105.25	101.50	6,112	21,883
Sep	105.10	+2.30	106.25	103.70	572	8,188
Dec	107.50	+2.45	108.50	106.00	303	4,607
Mar	109.40	+2.45	109.35	107.90	25	1,744
May	111.05	+2.35	111.10	109.70	13	315
Total					11,544	46,760

COFFEE (ICO) (US cents/pound)

Apr 19		Prev. day
Comp. daily	85.15	84.61
15 day average	88.01	88.21

WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	178.7	-1.2	182.9	179.0	860	25,259
Oct	180.5	-0.9	184.0	180.2	550	11,936
Dec	182.5	-1.2	185.5	183.6	81	5,470
Mar	190.6	-1.4	193.0	191.5	82	3,289
May	190.7	-5.3	-	-	-	1,562
Total					1,573	47,885

SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	5.10	-0.03	5.15	5.06	9,034	38,743
Jul	4.79	-0.05	4.85	4.75	11,348	74,413
Oct	5.24	-0.08	5.33	5.21	1,654	41,919
Mar	5.84	-0.08	5.95	5.81	1,742	23,064
May	5.92	-0.08	6.03	5.96	9	3,675
Jul	6.02	-0.08	6.12	6.12	7	2,461
Total					23,799	187,240

COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	56.52	-1.17	58.05	56.40	10,058	15,113
Jul	57.77	-0.83	58.80	57.40	11,290	21,413
Oct	58.23	-0.87	59.20	57.70	92	1,864
Dec	58.62	-0.48	59.35	58.50	1,490	16,922
Mar	59.73	-0.42	60.35	59.75	151	3,486
May	60.35	-0.75	61.00	60.95	25	1,375
Total					23,106	60,803

ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	85.15	+4.60	88.00	81.30	4,198	13,839
Jul	84.10	+4.65	84.45	80.00	4,436	9,789
Sep	85.10	+4.60	85.50	81.60	848	3,804
Nov	86.30	+4.25	87.05	83.50	146	3,139
Jan	87.40	+3.90	88.25	87.00	53	2,483
Mar	88.40	+3.35	89.00	89.00	1	312
Total					9,682	33,408

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

Reuters (Base: 18/9/31 = 100)

Apr 19	Apr 16	month ago	year ago
1334.0	1335.9	1374.2	1645.5

CRB Futures (Base: 1967 = 100)

Apr 16	Apr 15	month ago	year ago
189.22	188.99	-	-

GSCI Spot (Base: 1970 = 100)

Apr 16	Apr 15	month ago	year ago
155.73	154.18	142.42	169.32

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-4,800	to	756,025
Aluminium alloy	-820	to	65,140
Copper	+1,400	to	742,750
Lead	-125	to	103,400
Nickel	+198	to	61,410
Zinc	-725	to	318,200
Tin	+580	to	9,830

MEAT AND LIVESTOCK

LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	65.650	-	66.175	65.550	5,091	10,947
Jun	62.900	-0.450	63.675	62.850	9,192	49,788
Aug	62.025	-0.300	62.325	61.900	2,456	18,793
Oct	64.125	+0.025	64.425	63.950	1,045	13,219
Dec	65.950	-	66.275	65.850	292	5,771
Feb	67.500	+0.025	67.600	67.450	82	2,321
Total					18,280	102,762

LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	56.225	+0.550	55.625	54.800	5,378	18,615
Jul	56.850	-0.150	57.250	58.675	1,169	7,267
Aug	57.175	-0.325	57.900	57.150	1,256	6,820
Oct	55.025	+0.075	55.550	54.850	453	7,607
Dec	54.825	-0.025	55.500	54.800	316	3,982
Feb	57.500	-0.300	57.900	57.500	17	747
Total					8,896	48,608

PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
May	55.175	-0.425	57.500	55.050	1,363	2,807
Jul	55.925	-0.225	57.900	55.800	391	1,828
Aug	54.725	+0.025	57.200	54.700	94	488
Total					1,861	5,136

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
ALUMINIUM (99.7%) LME	Jun	Sep	Jun	Sep
1250	86	109	56	78
1300	51	77	86	104
1350	26	52	122	135
COPPER (Grade A) LME	Jun	Sep	Jun	Sep
1550	50	96	56	78
1600	30	74	86	104
1650	17	55	122	135
COFFEE LIFFE	May	Jul	May	Jul
1450	292	42	1	2
1500	242	8	1	18
1550	192	1	1	61
COCOA LIFFE	May	Jul	May	Jul
775	3	33	28	36
800	1	23	51	51
825	1	15	75	68
BRENT CRUDE IPE	Jun	Jul	Jun	Jul
1400	182	-	10	-
1450	136	143	18	-
1500	112	118	31	-

LONDON SPOT MARKETS

CRUDE OIL FOB (per barrel)

		+or-
Dubai	$15.61-5.71	+0.48
Brent Blend (dated)	$16.04-6.09	+0.395
Brent Blend (Jun)	$16.04-6.08	+0.40
W.T.I.	$17.65-7.70x	+0.34

OIL PRODUCTS NWE prompt delivery CIF (tonne)

Unleaded Gasoline ‡	$166-169	+2
Gas Oil	$133-134	+3.5
Heavy Fuel Oil	$71-73	
Naphtha	$140-142	+2
Jet fuel	$163-164	+4
Diesel	$144-145	+4

NATURAL GAS (Pence/therm)

Bacton (Apr)	9.18-9.20	-0.085

Petroleum Argus. Tel. London (0171) 359 8792

OTHER

Gold (per troy oz)♣	$283.75	-0.20
Silver (per troy oz)♣	506.50	+0.50
Platinum (per troy oz.)	$365.00	+3.00
Palladium (per troy oz.)	$379.00	+8.00
Copper	71.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	19.72r	
Tin (New York)	250.5	
Cattle (live weight)	92.31p	+0.56*
Sheep (live weight)	99.02p	-1.05*
Pigs (live weight)†	61.69p	-1.28*
Lon. day sugar (raw)	$143.20	+3.40
Lon. day sugar (wte)	$194.50	+1.80
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£96.00	
Wheat (US Dark North)	£120.00	-1.0
Rubber (May)ψ	42.00p	
Rubber (Jun)ψ	42.50p	
Rubber (KL RSS No1)	222.00m	+1.00
Coconut Oil (Phil)§	845.0	-10.0
Palm Oil (Malay.)§	495.0y	+7.5
Copra (Phil)§	500.0z	+5.0
Soyabeans (US)	140.0y	
Cotton Outlook'A' index	57.50	
Wooltops (64s Super)	302p	

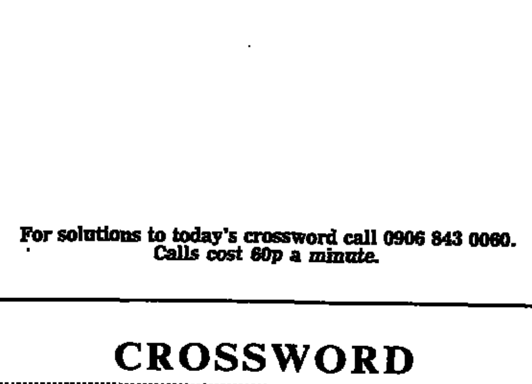
£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Mar/Apr. z May. x Jun. ψLondon Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on. ‡ Unleaded Gasoline replaced Premium on March 15th. 602 head of pigs sold.

JOTTER PAD

For solutions to today's crossword call 0906 843 0060. Calls cost 60p a minute.

CROSSWORD

No.9,966 Set by ORENSE



ACROSS

1 Cooked it with apples and reduced pulse (5,3)
5 The others eat dad's dinner (6)
9 "Ring" to rhyme with "when" abroad (8)
10 Best one in university article achieving state of perfection (6)
11 Service provider's add-on extra (8)
12 Chronicle alert to change to first edition (6)
14 Regardless of article on high overheads (2,3,5)
18 Herb's two boys chasing money (10)
22 One doesn't count negative force (6)
23 When to strike out a sign of omission (8)
24 Engagement one found in part of London (6)
25 Pebbledasher? (8)
26 Row about identity becomes clearer (6)
27 Person willing to try new rota (8)

DOWN

1 Soak up the smell in the garden of England (6)
2 Scot's small return in gamble giving room to manoeuvre (6)
3 *New suits with English* material (6)
4 Larks about in great joy (10)
6 Establish one's position in church, following distribution of tenner (8)
7 Cheers article on behalf of city *employment* (8)
8 Trader becoming disheartened and against sideways move (8)
13 A new start for doctor seen at call (5,5)
15 Frank found mine, for example (4-4)
16 Continuing to play *a bad* tune (8)
17 Said to have done wrong, and, moreover, showing sign of sickness (8)
19 Take back diatribe that absorbs community (6)
20 Note to compose tune for dance (6)
21 Blade Runner's awkward task – executing her (6)

Solution to Saturday's prize puzzle on Saturday May 1.
Solution to yesterday's prize puzzle on Monday May 3.

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هكذا من الاصل

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

CAYMAN ISLANDS (REGULATED)(**)

[illegible]

MFS Meridian Funds - Contd.

[illegible]

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

GUERNSEY (FSA RECOGNISED)

[illegible]

BT Fund Managers (Ireland) Ltd (u)

[illegible]

Global Asset Management (GAM)

[illegible]

AIM Capital Funds Plc (z)

[illegible]

HSBC Asset Management

[illegible]

Premier Protected Assets Fund Plc

[illegible]

Christows Investments Plc

[illegible]

Lazard Investment Funds Ltd

[illegible]

IRELAND (FSA RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (FSA RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (FSA RECOGNISED)

[illegible]

FT MANAGED FUNDS SERVICE

Offshore Funds and Insurances

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AIB Govett (Channel Islands) Limited

Minerals, Oils Res. Shrs. Fd. Inc.

Murray Johnstone (Jersey) Limited

Newton Fund Managers (CI) Ltd

Royal Bank of Scotland Fund Managers (CI) Ltd

Fidelity Funds - Contd.

Fleming Group

Lombard Odier Invest - Contd.

Scottish Equitable Intl Fund SICAV

Sun Life Global Management Ltd

Svenska Selection Fund SICAV

Templeton Global Strategy Funds

Banque Internationale A Luxembourg - Contd.

International Bond Trust

Investissements Allemands SA

JP Morgan

Scudder Global Opportunities Funds - Contd.

LUXEMBOURG (FSA RECOGNISED)

ABN AMRO Funds

Bank Von Ernst & Cie AG

Barclays International Funds

Barclays Inv Funds (Luxembourg)

Chase Manhattan Vista Funds

Credit Agricole Indosuez

DB Investment Management SA

Dresdner RCM Global Investors (Lux) SA

Dresdner RCM Select Fund

Fidelity Funds

JERSEY (REGULATED)(**)

ABSA Offshore Fund Managers (Jersey) Ltd

AIB Govett Management (Jersey) Limited

Bank of Ireland Asset Mngmt (Jersey) Ltd

Barclays Bank Investors Jersey Ltd

Barclays Intl Funds

Fleming Group

Guinness Flight Fund Mgrs

Lazard Fund Administration Services (CI) Ltd

Lloyds TSB Fund Managers (CI) Ltd

Lombard Odier (Jersey) Ltd

Mercury Asset Mngt Channel Islands Ltd

Martin Currie Global Funds

Mercury Asset Management

JP Morgan

Aberdeen Global Funds

Banque Colbert S.A.

Banque Ferrier Lullin (Lux) SA

Banque Internationale A Luxembourg

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

Barclays Euro Funds

Barclays Liquidity Portfolio

Credit Agricole Indosuez

Credit Lyonnais Rouse (Bermuda) Ltd

Credit Suisse Asset Mgmt Funds

Flemings Group

Franklin Templeton Worldwide Funds

Merrill Lynch Asset Management

Monterey Trust SICAV

SCOTECH SA

Scudder Global Opportunities Funds

Scudder Global Horizon Funds

State Street Luxembourg SA

Templeton Emerging Asia

OFFSHORE INSURANCES

Aberdeen International Ltd

Albany International Assurance Ltd

هكذا من الأصل

FT MANAGED FUNDS SERVICE

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OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

LONDON SHARE SERVICE

AEROSPACE & DEFENCE

AUTOMOBILES

BANKS

BEVERAGES

CHEMICALS

CONSTRUCTION & BUILDING MATERIALS

CONSTRUCTION & BUILDING MATERIALS - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQUIPMENT

ENGINEERING & MACHINERY

ENGINEERING & MACHINERY - Continued

FOOD & DRUG RETAILERS

FOOD PRODUCERS & PROCESSORS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yield	P/E
Acatos & Hutch	‡	151½	---	237	115	-	4.3	-
Albert Fisher	‡	6	---	30½	4¼	1,162	-	3.5
Anglo-East	‡M	48½	---	57½	26½	-	7.2	4.8
Assoc Brit Foods	‡	443½	+17¼	660	400	1,818	2.4	14.8
Avidson		2½	---	4¼	2	58	-	Φ

FOOD PRODUCERS & PROCESSORS - Continued

FORESTRY & PAPER

GAS DISTRIBUTION

GENERAL RETAILERS

HEALTH

HOUSEHOLD GOODS & TEXTILES

HOUSEHOLD GOODS & TEXTILES - Continued

INFORMATION TECHNOLOGY HARDWARE

INSURANCE

INVESTMENT COMPANIES

Approved by the Inland Revenue

INVESTMENT COMPANIES - Continued

INVESTMENT COMPANIES - Continued

INV TRUSTS SPLIT CAPITAL

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هكذا من الاصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

MINING - Continued

REAL ESTATE - Continued

SPECIALITY & OTHER FINANCE - Continued

TRANSPORT - Continued

AIM - Continued

WATER

AMERICANS

STEEL & OTHER METALS

LEISURE, ENTERTAINMENT & HOTELS

OIL & GAS

CANADIANS

SOUTH AFRICANS

REAL ESTATE - Continued

SUPPORT SERVICES

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

PACKAGING

RESTAURANTS, PUBS & BREWERIES

LIFE ASSURANCE

MEDIA & PHOTOGRAPHY

PERSONAL CARE & HOUSEHOLD PRODUCTS

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FT Free Annual Reports Club

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LONDON STOCK EXCHANGE

FTSE 100 and All-Share indices hit new highs

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

It was another session of sparkling all-round gains for London's equity market yesterday.

The FTSE 100 index finished the day at a record closing high and looked set fair to launch another attack on its intraday high – 6,539.9. The FTSE 250 and SmallCap indices crept ever closer to their peaks.

A stunning advance by Wall Street – where the Dow Jones Industrial Average shot up more than 200 points not long after US trading began – saw the FTSE 100 move into overdrive, finishing 94.7 higher at a closing record of 6,513.3.

And the broader FTSE All-Share index, which briefly moved through the 3,000 level last Wednesday before slipping back, surged to close above that mark for the first time, reaching a record intraday and closing figure of 3,010.25, up 40.5 or 1.4 per cent.

Some market strategists warned that the markets may have become overheated. Richard Jeffrey at CCF Charterhouse said: "There has to be an underlying fear that markets are now more momentum driven – ratings are too extreme."

Continuing the pattern of recent sessions, the FTSE 250 index took the honours for outperformance during the early part of the day, with the second-liners attracting a fresh burst of support as the cyclical stocks remained the focus of attention.

At the close, the mid-cap index was 53.2 higher at 5,849.4, its fifth straight winning performance and a gain of 290.5 or 5.2 per cent during that time. Not to be outdone, the FTSE SmallCap leapt 22.5 to 2,489.6, also a fifth consecutive gain, a winning streak during which it has risen 71.74 or 3 per cent.

Once again the market was driven ahead by takeover news and speculation that spread across many of the market's sectors, including food retailers, telecoms, banks and leisure.

Adding to the positive mood was news of more companies returning cash to shareholders, with Inchcape proposing a 100p-a-share special dividend totalling £530m, and Associated British Foods handing back £418m via a 50p-a-share special dividend.

Lehman Brothers also helped fuel London's uptick. The broker increased its recommended exposure to the UK stock market to 14 per cent from 13 per cent.

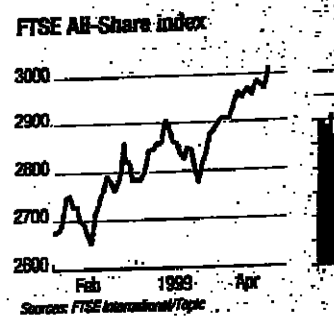
Lehman said: "The recovery in the balance of earnings revisions is stronger in the UK than elsewhere in the industrialised world. Having recently removed the prospect of rate cuts in the US, the UK stands alone as the only major equity market that will be supported by falling short and long rates."

But it was Wall Street's latest advance that gave the biggest boost to *sentiment*, following up last Friday's 31-point gain, which saw the Dow Jones Industrial Average hit its fifth consecutive closing high.

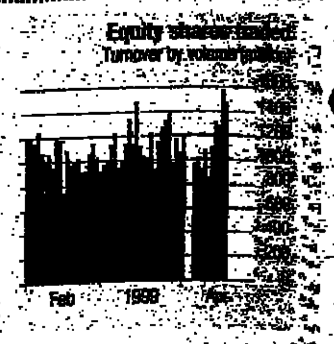
The day's UK economic news – headline output prices came in stronger than expected but core prices were below forecasts – had little impact.

Turnover expanded to 1.49bn shares, boosted by a 15 per cent share buyback carried out by Tomkins, which accounted for around 170m shares.

FTSE All-Share index



Equity shares traded
Turnover by volume



Sources: FTSE International/Topic

Indices and ratios

FTSE 100	6515.3	+94.7	FT 30	4092.0	+70.9
FTSE 250	5849.4	+53.2	FTSE Non-Fins p/e	27.36	27.10
FTSE 350	3110.8	+42.5	FTSE 100 Fut Jun	6565.0	+104.0
FTSE All-Share	3010.25	+40.55	10 yr Gilt yield	4.73	4.69
FTSE All-Share yield	2.24	2.27	Long gilt/equity yld ratio	2.07	2.08

Best performing sectors

1 Steel & Other Metals +5.8
2 Oil & Gas +4.6
3 Beverages +4.5
4 Resources +4.5
5 Mining +3.5

Worst performing sectors

1 Personal Care & Hse Prods -1.5
2 Gas Distribution -1.1
3 Health -1.1
4 Water -0.8
5 Utilities -0.6

Standard presents its case

COMPANIES REPORT

By Peter John and Martin Brice

Standard Chartered led the banking sector higher as investors moved into the stock at the start of a week of presentations to the UK's biggest institutions.

Eleven funds, most of which own more than 2 per cent of the bank's shares, paid to send representatives out to Hong Kong at the weekend.

A gruelling schedule, which began on Sunday evening, continued yesterday with seven events including talks on risk in China and an appraisal of corporate banking in Hong Kong.

The programme moves to Singapore on Wednesday. While it was too early for any solid fundamental news to filter back to the dealing desks, most brokers expected any reports from the company to be positive rather than negative.

The shares have virtually recovered all their losses suffered during the Asian economic crisis. However, the stock is still seen as one of the market's prime cyclical recovery plays.

Standard Chartered rose 43½ to £10.99½, helped by strong gains in Hong Kong's Hang Seng index. By comparison HSBC, which hit a new high in Hong Kong, gained 28 to £23.03. HSBC has outperformed the FTSE All-Share index by 22.1 per cent this year.

Banking stocks were driven by the strong performance in the US, which was helped in turn by well-received figures from Citigroup, the US bank.

Analysts said the discount to the market at which banks normally trade was beginning to look unjustified, particularly if there was no economic downturn.

Barclays benefited from weekend press reports that chewed over the prospect of a merger with Royal Bank of Scotland. Barclays rose 44 to £19.42 and RBoS 33 to £14.75. NatWest was up 49 at £15.66 and Lloyds TSB 36 at £10.03.

Composite insurer CGU fell 11¼ to stand at 977p as David Hudson, newly arrived at HSBC Securities from Credit Lyonnais Laing, downgraded the stock to "reduce" from "hold".

Mr Hudson said: "We are under the impression that the momentum for recovery in the UK for general insurance has been choked off recently".

Norwich Union shed 3¾ to 456p as the market reacted cautiously to new business figures for the first quarter of 1999. Although new life and pension sales rose 32 per cent, analysts were unimpressed by the change in business mix, which is likely to see falling margins.

Oils shot higher as the move to cyclicals coincided with a growing Balkan war premium and a savage squeeze in the sector.

The underlying price of the most representative oil future broke briefly though $16.00 a barrel and dealers said the price of jet fuel had jumped from $125 a tonne in *March to $145 a tonne yesterday*, partly because of the Kosovo conflict.

"I think this rally has been brutal after so much underperformance. It has left some analysts traumatised," said one trader.

Crude oil prices dropped below $10 a barrel at the end of last year, with some of the more bearish oil company analysts predicting a struggle for survival for some of the e&p stocks.

BP, which will represent 10 per cent of the Footsie when the takeover of Atlantic Richfield goes through and in which many institutions are still fundamentally underweight, jumped 57¼ to £11.82¼. The stock has already overshot most analysts' year-end share-price targets and many brokers are believed to be re-examining their forecasts.

Shell Transport rose 13 to 457½p despite going ex an 8p dividend. The rally was also marked among the exploration and production stocks. British-Borneo led the FTSE 250 with a rise of 20 to 172½p. Enterprise rose 38 to 423p and Lasmo 7¼ to 142p.

Retail buyers

The prospect of more takeovers and mergers was at the forefront of investors' attention as the bigger retailers saw very heavy volume.

Asda, the object of Kingfisher's ardour, was off 5 at 193½p as 29m were dealt, while its suitor was off more than 5 per cent or 44 at 796p.

The terms of the merger, which will leave shareholders in Kingfisher with 46.33 per cent of the new group, valued Asda shares at 182p. They closed at a premium of 6.4 per cent to that estimate.

Analysts suggested the deal was prompted by fears that European retailing was about to be changed by the entrance of US stores group Wal-Mart, and the premium to the offer at which Asda shares traded suggested investors hoped for the entrance of another bidder.

Elsewhere in the retailing sector J Sainsbury rose 24¾ to 415p in 10m traded, while Tesco was off 1½ at 180p as 14m were dealt.

Speculation that Marks and Spencer was the target of Warren Buffett's attention did the rounds again as the retailer said it would try to discover the underlying holders of a 3 per cent stake bought by Brandes Investment Partners, a US investment bank.

Brandes said in morning trading it had 85.6m shares in M&S, which was down 12p in the morning but closed up 10½ at 433½p. It later said it had no connection with Mr Buffett.

Offshore Tool & Energy unveiled its first results since joining Aim in November and said the low oil price had affected it in January and February but activity had picked up significantly in March and April. The stock was the best performer in the market, gaining 35 per cent or 3 to 11½p.

Leading information technology stocks were again *among the worst performers*, as investors switched from highly rated shares into the lowly rated cyclical stocks that have so firmly returned to favour.

Some analysts are said to believe the party is over and the high ratings these stocks once enjoyed may not be seen again.

CMG, the IT consultancy and services group, was off 60 at £16.30. In common with some other highly rated stocks, it has suffered a substantial de-rating.

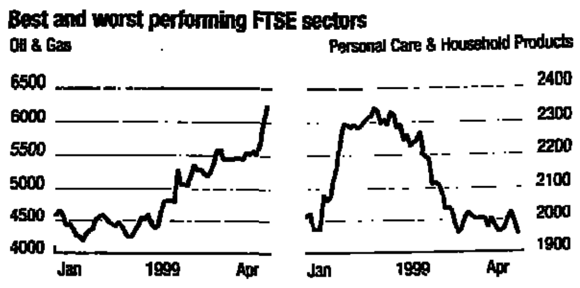
At this level it stood at about 40 times next year's forecast earnings, down from the 50 times earnings at which it traded earlier this year.

It has underperformed the market by 20 per cent since the start of the year.

Sage was off 57½ at £21.17½, compounding its 12 per cent underperformance suffered in the past month.

Best and worst performing FTSE sectors

Oil & Gas — Personal Care & Household Products



Source: FTSE International

FT 30 INDEX

	Apr 19	Apr 16	Apr 15	Apr 14	Apr 13	Yr ago	*High	*Low
FT 30	4092.0	4021.1	4023.7	4007.9	3981.2	3789.5	4092.0	2790.5
Ord. div. yield	2.57	2.62	2.59	2.58	2.58	2.89	4.22	2.58
P/E ratio net	24.52	24.05	24.22	24.41	24.41	24.55	25.41	15.80
P/E ratio nil	24.45	23.99	24.26	24.34	24.35	24.33	25.19	15.71

FT 30 since compilation: high 4092.0 19/4/99; low 49.4 26/06/40 Base Date 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
4021.1	4049.7	4035.9	4034.0	4045.9	4044.6	4064.2	4066.1	4092.0	4019.9

STOCK MARKET TRADING DATA

	Apr 19	Apr 16	Apr 15	Apr 14	Apr 13	Yr ago
SEAQ bargains	102,087	108,039	91,736	87,638	84,364	60,948
Equity turnover (£m)†	-	5943.4	5163.1	4372.7	4636.2	2583.9
Equity bargains†	-	81,736	74,062	71,455	72,358	52,822
Shares traded (mil)†	-	1389.7	1146.9	1127.9	994.6	705.2
Total market bargains‡	-	108,140	93,008	87,970	88,923	-
Total turnover (£m)‡	-	8341.2	7418.2	6893.3	6823.3	-
Total shrs traded (mil)‡	1490.0*	1824.2	1560.2	1542.8	1434.0	-
Tradepoint turnover (£m)	26.0	38.8	33.5	30.8	39.3	19.9
Tradepoint shrs traded(m)	11.8	16.4	13.0	11.0	11.8	10.9

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls		52 Week highs and lows		LIFFE Equity options	
Total Rises	1,287	Total Highs	188	Total contracts	51,254
Total Falls	393	Total Lows	13	Calls	21,216
Same	1,165			Puts	30,138

Apr 19 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	6480.0	6570.0	+112.0	6580.0	6455.0	24315	202809
Sep		6620.0	+112.0			0	4897
Dec		6682.0	+112.0			0	1150

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		5849.0	+53.0			0	7867

FTSE 100 INDEX OPTION (LIFFE) (*6515) £10 per full index point

	6050		6400		6450		6500		6550		6600		6650		6700	
	C	P	C	P	C	P	C	P	C	P	C	P	C	P	C	P
May	[illegible]															
Jun	[illegible]															
Jul	[illegible]															
Aug	[illegible]															
Dec†	[illegible]															

Calls 2,831 Puts 4,590

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	6375		6425		6475		6525		6575		6625		6675		6725	
	C	P	C	P	C	P	C	P	C	P	C	P	C	P	C	P
May	[illegible]															
Jun	[illegible]															
Jul	[illegible]															
Sep	[illegible]															
Dec†	[illegible]															

Calls 7,354 Puts 14,613 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m)	1999 High	1999 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]											

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Apr 16	% chg on day	Apr 15	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index (28)	996.37	+7.34	908.28	1222.19	1.91	876.28	1351.57	761.60
■ Regional Indices								
Africa (9)	1108.49	+7.27	1033.37	1227.33	3.78	1131.64	1468.04	765.83
Australasia (8)	1148.38	+5.74	1086.08	1487.83	2.73	1165.50	1600.03	815.81
Americas (11)	889.15	+7.75	825.22	1200.98	0.82	893.03	1317.41	847.65

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stg Apr 19	Day's chge%	Euro Index	£ Stg Apr 16	£ Stg Apr 15	Year ago	Actual yield%	Cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	6515.3	+1.5	7700.8	6420.6	6466.1	5954.1	2.11	1.66	28.48	63.01	2914.13
FTSE 250	5849.4	+0.9	6913.7	5798.2	5707.3	5526.9	2.69	1.88	19.78	53.32	2569.95
FTSE 250 ex Inv Co	5918.5	+0.9	6995.4	5864.7	5763.6	5557.2	2.81	1.93	18.45	55.30	2612.54
FTSE 350	3110.8	+1.4	3676.9	3068.3	3079.2	2861.0	2.20	1.70	26.65	29.82	2843.96
FTSE 350 ex Inv Co	3118.6	+1.4	3686.0	3075.8	3086.7	2865.4	2.21	1.71	26.41	30.11	1462.53
FTSE 350 Higher Yield	3099.7	+2.1	3663.7	3037.4	3013.9	2815.0	2.86	1.59	22.06	34.27	2438.27
FTSE 350 Lower Yield	3115.3	+0.7	3682.2	3093.9	3141.7	2920.3	1.51	1.93	34.21	24.89	2299.45
FTSE SmallCap	2489.59	+0.9	2942.58	2467.10	2449.05	2627.10	2.84	1.84	19.09	20.97	2218.75
FTSE SmallCap ex Inv Co	2451.85	+0.8	2897.74	2432.02	2414.81	2618.43	3.03	1.95	16.98	21.64	2210.63
FTSE All-Share	3010.25	+1.4	3557.98	2969.70	2978.78	2789.47	2.23	1.71	26.17	28.69	2793.04
FTSE All-Share ex Inv Co	3021.73	+1.4	3571.55	2980.93	2990.27	2796.10	2.25	1.72	25.84	29.07	1442.74
FTSE Fledgling	1354.08	+1.0	1600.46	1340.08	1331.97	1408.88	2.92	1.21	28.22	10.53	1537.45
FTSE Fledgling ex Inv Co	1360.92	+0.8	1608.54	1348.48	1342.00	1425.73	3.35	1.25	23.82	11.79	1550.98
FTSE All-Small	1409.67	+0.9	1666.16	1396.55	1386.70	1483.16	2.86	1.71	20.49	11.69	1603.54
FTSE All-Small ex Inv Co	1414.49	+0.8	1671.86	1402.84	1393.55	1504.58	3.09	1.79	18.03	12.44	1621.15
FTSE AIM	916.1	+1.5	1082.8	902.7	897.4	1069.2	1.06	30.00†	0.13	3.00	842.53

■ *FTSE* Actuaries Industry Sectors

	£ Stg Apr 19	Day's chge%	Euro Index	£ Stg Apr 16	£ Stg Apr 15	Year ago	Actual yield%	Cover	P/E ratio	Xd adj. ytd	Total Return
RESOURCES(18)	5412.17	+4.5	6396.94	5181.00	4933.98	4681.38	2.31	0.82	68.87	51.23	2554.31
Mining(6)	4121.35	+3.5	4871.25	3980.77	3859.06	3283.07	2.88	1.65	19.80	71.13	1360.19
Oil & Gas(12)	6258.02	+4.6	7396.70	5985.05	5688.82	5208.70	2.25	0.48	80.00†	53.96	3033.27
BASIC INDUSTRIES(83)	2308.80	+2.2	2728.90	2260.18	2181.49	2214.14	3.47	1.77	16.25	26.67	1401.03
Chemicals(20)	2439.92	+1.4	2883.87	2406.23	2323.00	2898.03	3.76	1.26	21.18	48.98	1301.06
Construction & Bld Matls(60)	2077.19	+2.3	2455.15	2029.57	1945.00	1835.83	2.98	2.26	14.86	17.25	1169.77
Forestry & Paper(2)	6148.16	+0.6	7266.85	6109.61	6020.00	4681.38	5.01	1.74	11.48	26.99	2888.09
Steel & Other Metals(1)	3001.42	+5.8	3547.54	2836.50	2926.03	2983.22	6.28	1.13	14.15	22.19	1994.08
GENERAL INDUSTRIALS(78)	2203.17	+1.2	2604.05	2178.17	2099.83	2214.14	2.47	2.17	18.62	22.70	1334.22
Aerospace & Defence(8)	2667.37	----	3152.71	2667.40	2580.60	2983.22	1.80	3.01	18.42	22.59	1772.44
Diversified Industrials(4)	1100.33	+2.6	1300.54	1071.94	1059.13	1454.25	5.28	0.81	23.46	18.83	710.87
Electronic & Elect Equip(21)	3147.22	+0.9	3719.88	3120.31	3107.48	2453.36	2.24	1.97	22.71	20.54	1776.73
Engineering & Machinery(45)	2810.71	+2.1	3322.13	2752.23	2596.43	2983.22	2.92	2.05	18.75	29.13	1872.70
CYCLICAL CONSUMER GOODS(16)	7183.71	+0.5	8490.83	7148.81	6710.32	5659.25	2.28	2.88	15.20	68.02	2905.85
Automobiles(7)	5291.88	+0.4	6254.77	5269.33	4903.27	4134.05	1.68	3.96	15.06	40.43	2975.08
Household Goods & Texts(9)	2040.21	+0.9	2411.44	2021.64	2015.21	3604.81	6.58	0.93	16.33	52.57	899.18
NON-CYCLICAL CONS GOODS(84)	5714.84	+1.4	6754.69	5635.07	5771.35	5659.25	2.16	1.56	29.58	70.94	2313.29
Beverages(9)	3661.53	+4.5	4327.76	3503.84	3615.61	3894.88	2.88	1.95	17.84	47.36	1487.25
Food Producers & Processors(23)	3252.65	+0.4	3844.48	3238.43	3308.06	3995.92	2.63	2.03	18.72	43.08	1615.11
Health(14)	2499.10	-1.1	2953.82	2525.84	2563.83	2345.70	1.94	1.48	34.79	8.05	1619.18
Packaging(10)	2034.49	+7.1	2404.88	2013.25	1912.82	2220.17	6.20	2.07	9.31	48.72	966.65
Personal Care & Hse Prods(4)	1965.94	-1.5	2323.65	1994.96	2023.47	3604.81	4.00	1.89	14.82	79.61	878.40
Pharmaceuticals(21)	*10430.62*	*+1.3*	*12328.53*	*10301.72*	*10548.51*	*8443.33*	*1.62*	*1.28*	*47.97*	*105.45*	3795.04
Tobacco(3)	6074.23	+1.1	7179.46	6008.60	6231.47	4777.57	4.93	1.31	15.46	191.28	1780.76
CYCLICAL SERVICES(227)	4026.92	+0.8	4759.63	3994.64	4044.70	3417.11	2.15	2.12	21.94	22.11	2253.22
Distributors(25)	2284.74	+1.6	2700.47	2247.85	2229.00	2939.89	3.41	1.83	16.07	17.96	925.70
General Retailers(41)	2463.43	-0.5	2911.67	2475.62	2553.98	2381.01	2.50	2.03	19.84	12.04	1532.32
Leisure, Entertmt & Hotels(30)	4175.93	+2.8	4935.76	4062.59	4097.17	3941.50	2.01	2.48	20.08	50.97	2419.88
Media & Photography(45)	5450.36	+0.4	6442.08	5430.09	5536.85	4454.19	1.68	1.96	30.32	46.33	2101.51
Rests, Pubs & Breweries(22)	3781.24	+0.8	4469.26	3752.67	3748.54	4297.83	2.69	2.19	16.99	31.82	1979.33
Support Services(35)	5277.38	+1.4	6237.62	5204.06	5195.74	4871.82	1.55	2.14	30.05	21.38	3512.06
Transport(29)	3710.57	+1.5	4385.73	3656.77	3649.72	3548.03	2.43	2.25	18.29	29.25	1688.93
NON-CYCLICAL SERVICES(22)	3962.04	----	4682.95	3960.75	4059.58	3417.11	1.45	1.78	38.85	18.58	2214.94
Food & Drug Retailers(13)	2748.16	+1.1	3245.84	2718.22	2551.06	3100.19	2.71	2.16	17.06	22.19	1909.62
Telecommunications Services(9)	6119.26	-0.2	7232.69	6131.89	6402.11	3763.41	1.16	1.58	54.58	4.51	3018.65
UTILITIES(20)	3697.54	-0.6	4370.33	3718.26	3767.05	3782.32	3.64	1.68	16.40	25.72	1810.96
Electricity(7)	4137.67	-0.1	4890.54	4142.10	4199.48	4260.97	3.85	1.23	21.14	21.24	2482.79
Gas Distribution(2)	3077.36	-1.1	3637.30	3112.61	3161.74	2750.99	1.82	2.40	22.85	28.03	1809.89
Water(11)	2951.20	-0.8	3488.18	2974.57	3000.54	3396.65	5.24	2.04	9.36	24.10	1874.38
INFORMATION TECHNOLOGY(39)	1697.51	-1.2	2006.39	1717.39	1747.44	1439.96	0.43	4.59	51.08	52.61	1709.13
Information Tech Hardware(4)	1913.35	+0.4	2261.50	1904.90	1908.91	1439.96	0.13	7.23	80.00†	51.91	1925.68
Software & Computer Services(35)	1672.37	-1.4	1976.67	1695.54	1728.62	1439.96	0.47	4.49	47.71	52.69	1683.90
NON FINANCIALS(567)	3012.77	+1.4	3560.98	2972.24	2977.43	2754.40	2.21	1.65	27.36	25.10	2507.94
FINANCIALS(238)	6086.35	+1.4	7193.79	6004.04	6043.12	5849.17	2.30	1.85	23.47	80.62	2891.97
Banks(12)	9828.88	+1.8	11617.29	9652.99	9674.38	8497.60	2.23	1.98	22.72	133.25	3540.48
Insurance(20)	2275.28	-0.1	2689.28	2277.54	2335.67	2816.50	2.87	1.92	18.14	30.37	1932.26
Life Assurance(6)	6958.57	+0.9	8224.72	6899.38	7108.47	7348.91	2.59	1.70	22.72	121.22	3193.16
Investment Companies(116)	4045.39	+1.2	4781.47	3986.68	3986.20	3943.06	1.75	1.10	51.65	24.93	1497.91
Real Estate(49)	1974.14	-0.5	2333.35	1983.77	1957.26	2379.30	2.86	1.54	22.84	10.60	1323.11
Speciality & Other Finance(31)	4525.57	+2.0	5349.02	4437.67	4470.90	5100.95	1.93	2.09	24.88	39.33	2821.48

■ **Hourly movements**

	9.03	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	6433.7	6444.6	6427.6	6432.0	6444.6	6441.5	6473.5	6498.2	6515.3	6414.6
FTSE 250	5808.8	5845.3	5840.4	5832.7	5836.6	5835.5	5842.8	5840.6	5849.4	5806.6
FTSE SmallCap	2473.23	2477.43	2478.21	2480.11	2481.62	2482.39	2485.88	2489.04	2489.62	2473.23
FTSE All-Share	2975.71	2982.95	2976.31	2977.44	2982.53	2981.35	2993.97	3003.17	3010.25	2971.20

Time of FTSE 100 Day's high: 16:30:00 Day's low: 9:40:45. FTSE 100 1999 High: 6515.3 (19/04/99) Low: 5770.3 [illegible]. Time of FTSE All-Share Day's high: 16:20:00 Day's low: 9:41:00. FTSE All-Share 1999 High: 3010.25 (19/04/99) Low: 2854.82 [illegible].

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FTSE INTERNATIONAL

TRADING VOLUME

■ **Major Stocks yesterday.**

	Vol 000's	Closing price	Day's change
[illegible]			

Based on trading volume for the FTSE 100 constituents and some other major stocks. [illegible]

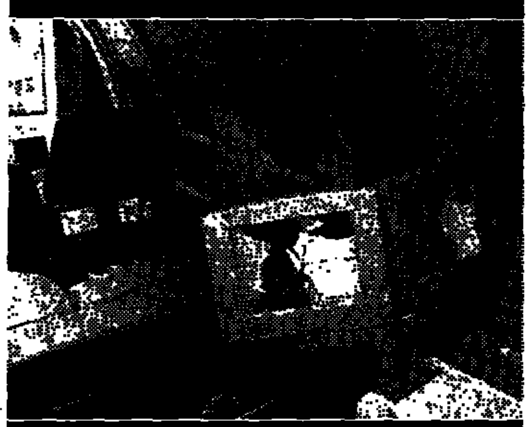
هكذا من الأصل

هكذا من الاصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €



FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY APRIL 16 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY APRIL 15 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	231.31	2.1	212.45	172.69	248.80	237.82	0.6	3.17	226.55	208.31	170.57	243.19	236.41	231.31	183.88	218.88
Austria (21)	184.23	-0.1	169.21	137.54	174.86	174.86	0.1	2.02	184.34	169.50	138.79	174.61	174.61	253.73	185.27	223.46
Belgium (22)	362.89	-1.4	333.30	270.92	337.22	337.22	-1.2	2.08	368.25	338.61	277.26	341.51	341.51	446.95	319.89	325.38
Brazil (29)	153.50	1.1	140.99	114.59	165.11	471.14	1.2	4.80	151.90	139.67	114.37	163.06	465.64	266.18	89.32	265.18
Canada (113)	225.75	0.2	207.34	168.63	242.82	243.09	-0.1	1.61	225.30	207.17	169.63	241.85	243.41	248.78	159.94	247.41
Denmark (34)	425.94	-0.8	391.21	317.99	458.16	402.30	-0.6	1.84	429.46	394.88	323.34	461.00	404.68	537.33	406.82	517.77
Finland (28)	690.80	1.6	634.47	515.72	805.17	805.17	1.8	1.45	679.77	625.05	511.81	790.71	790.71	719.62	338.49	414.54
France (74)	324.77	-0.8	298.28	242.46	312.15	312.15	-0.6	1.97	327.26	300.92	246.40	313.91	313.91	354.45	253.86	301.14
Germany (54)	261.14	-0.6	239.84	194.95	248.03	248.03	-0.4	1.60	262.75	241.60	197.83	249.06	249.06	325.61	226.35	284.73
Greece (36)	412.31	-2.8	378.69	307.81	443.49	896.05	-2.5	1.22	423.99	389.85	319.22	455.13	918.79	454.89	211.47	-
Hong Kong, China (66)	365.42	4.9	335.62	272.81	393.06	363.52	4.9	3.12	348.37	320.32	262.29	373.95	346.60	385.42	198.64	337.11
Indonesia (23)	54.73	7.2	50.27	40.88	58.87	290.42	7.6	1.00	51.03	46.92	38.42	54.78	270.01	58.61	19.04	58.28
Ireland (14)	546.69	0.4	502.12	408.14	566.70	566.70	0.6	1.81	544.27	500.45	409.78	563.03	563.03	605.85	396.15	548.71
Italy (53)	168.80	-0.2	155.03	126.02	228.01	228.01	0.0	1.52	168.10	155.49	127.32	227.95	227.95	192.84	128.68	172.35
Japan (443)	118.43	1.3	108.77	88.42	127.39	88.42	0.4	0.83	116.95	107.53	88.05	125.53	88.05	118.43	76.83	96.18
Mexico (29)	1687.43	1.1	1531.47	1244.83	1793.54	17357.57	0.8	1.47	1648.96	1516.23	1241.53	1770.08	17220.49	1733.78	787.15	1664.46
Netherlands (26)	498.74	1.3	458.07	372.33	468.57	468.57	1.5	2.05	492.28	452.65	370.64	461.57	461.57	562.73	394.92	495.35
New Zealand (18)	67.50	4.1	62.09	50.47	72.71	65.75	3.3	3.65	64.91	59.68	48.87	69.69	63.67	78.03	45.69	75.54
Norway (37)	248.17	1.6	227.93	185.27	266.94	261.06	1.7	1.88	244.26	224.59	183.90	262.20	256.72	357.71	161.86	340.19
Philippines (22)	103.20	3.6	94.78	77.04	111.00	196.46	3.7	0.75	99.63	91.61	75.01	106.95	189.40	103.20	42.48	99.18
Portugal (18)	216.44	-2.6	198.79	161.58	277.43	277.43	-2.4	1.37	222.22	204.33	167.31	284.26	284.26	299.39	194.13	-
Singapore (40)	264.82	4.1	243.23	197.70	284.85	208.05	4.8	1.30	254.44	233.96	191.57	273.13	198.51	264.82	102.45	211.44
South Africa (34)	238.00	3.9	218.59	177.68	255.99	317.64	4.1	3.04	229.08	210.64	172.48	245.90	305.17	346.20	151.55	337.48
Spain (30)	364.61	-2.3	334.86	272.20	429.31	429.31	-2.1	1.64	373.36	343.30	281.11	438.71	438.71	435.19	290.81	388.76
Sweden (41)	557.55	2.0	512.09	418.24	599.72	686.15	2.3	1.98	546.70	502.69	411.61	586.85	670.61	628.19	379.18	604.67
Switzerland (30)	385.14	-0.9	353.74	287.53	414.27	357.47	-0.9	1.23	388.57	357.28	292.55	417.10	360.60	441.65	307.73	395.73
Thailand (26)	30.64	18.1	28.14	22.87	32.95	44.52	17.6	1.87	25.95	23.86	19.54	27.85	37.84	30.64	8.15	26.54
United Kingdom (201)	406.50	-0.4	373.35	303.47	437.24	373.95	-0.5	2.27	408.01	375.16	307.19	437.97	375.16	410.83	307.98	397.48
USA (605)	544.04	-0.3	499.68	406.16	585.19	544.04	-0.3	1.22	545.89	501.76	410.85	585.76	545.69	559.68	390.12	453.51
Americas (776)	484.82	-0.3	445.29	361.94	521.48	411.07	-0.3	1.26	486.12	446.98	366.00	521.82	412.22	497.71	347.59	411.46
Europe (719)	359.67	-0.4	330.34	268.51	385.87	347.51	-0.3	1.90	360.98	331.92	271.78	387.49	348.50	398.24	282.63	358.55
Eurobloc (340)	100.98	-0.4	92.72	75.37	103.78	103.78	-0.2	1.77	101.34	93.18	76.30	103.96	103.96	113.92	81.53	-
Nordic (140)	530.46	1.4	487.21	396.02	570.58	584.26	1.7	1.79	523.03	480.92	393.79	561.44	554.93	555.97	360.04	524.57
Pacific Basin (713)	127.34	1.6	116.96	95.07	136.97	97.96	1.0	1.26	125.13	115.06	94.21	134.32	97.03	127.34	82.88	107.11
Euro-Pacific (1432)	223.55	0.3	205.32	166.89	240.46	191.66	0.1	1.70	222.85	204.91	167.78	239.22	191.45	225.07	168.00	211.91
North America (718)	522.62	-0.3	480.00	390.16	562.14	523.32	-0.3	1.24	524.11	481.91	394.60	562.80	524.87	536.94	374.92	440.45
Europe Ex. UK (518)	325.58	-0.4	299.03	243.06	350.20	324.72	-0.2	1.70	326.75	300.45	246.01	350.75	325.29	366.32	260.93	328.20
Europe Ex. Eurobloc (379)	101.23	-0.4	92.97	75.57	108.88	104.21	-0.4	2.03	101.58	93.40	76.48	109.04	104.63	103.93	77.40	-
Europe Ex. UK Ex. Eurobloc (178)	96.19	-0.3	88.34	71.81	103.46	98.76	-0.2	1.46	96.47	88.70	72.63	103.56	98.94	109.21	75.16	-
Pacific Ex. Japan (270)	214.14	3.8	196.68	159.87	230.33	216.51	3.1	2.93	206.39	189.78	155.39	221.55	209.97	214.14	128.26	203.99
World Ex. Eurobloc (1902)	113.93	0.1	104.64	85.06	122.55	113.21	-0.1	1.40	113.88	104.69	85.72	122.22	113.31	115.18	83.09	-
World Ex. US (1637)	224.17	0.4	205.89	167.36	241.13	197.66	0.1	1.72	223.39	205.41	168.19	239.80	197.37	225.28	165.95	216.24
World Ex. UK (2041)	319.68	0.0	293.59	238.64	343.84	290.22	0.0	1.36	319.51	293.79	240.56	342.98	290.36	323.87	236.11	282.81
World Ex. Japan (1799)	431.47	-0.2	396.28	322.11	464.10	428.26	-0.2	1.54	432.14	397.35	325.36	463.88	428.93	439.15	320.58	390.09
The World Index (2242)	327.16	0.0	300.48	244.24	351.90	297.88	-0.1	1.46	327.15	300.82	246.32	351.18	298.16	330.98	242.36	292.48

 CONSTITUENT CHANGES [illegible]

Emerging markets:

IFC Investable indices

Dollar terms

Apr 16 Market		Day's chg %	% Chg since 31/12/98
Latin America			
Argentina	912.40	+6.6	+14.4
Brazil	315.83	+0.8	+14.7
Chile	583.30	+2.2	+29.2
Colombia[1]	408.21	+2.3	-7.5
Mexico	691.46	+1.3	+43.6
Peru[2]	152.98	+5.7	+13.8
Venezuela[3]	422.94	+7.0	-6.7
East Asia			
China[4]	27.68	+4.5	+5.7
India[7]	73.86	+6.3	+14.7
Indonesia[5]	28.70	+7.3	+16.5
Korea[6]	68.19	+1.3	+28.8
Malaysia	91.95	+3.4	+3.9
Pakistan[8]	93.46	-0.8	+5.2
Philippines	143.15	+4.0	+16.3
Sri Lanka[10]	66.76	-0.2	-18.9
Taiwan, China[9]	138.99	-0.5	+20.0
Thailand	71.30	+10.2	+12.9
Europe			
Czech Rep	44.21	-1.8	-12.9
Greece	748.04	-2.6	+20.8
Hungary[12]	248.56	+1.7	-11.4
Poland[11]	524.17	+0.4	+0.1
Russia	39.42	+5.8	+68.1
Slovakia	31.47	+5.0	-27.8
Turkey[14]	218.61	+4.9	+49.4
Mideast/Africa			
Egypt	70.96		+10.1
Israel	127.90	+0.2	+25.1
Jordan	222.42		+2.7
Morocco	152.74	+1.7	-8.9
S Africa[15]	157.94	+2.0	+26.1
Zimbabwe[16]	133.79	-1.3	+27.0
Regions			
Composite	228.18	+1.7	+21.1
Latin America	324.66	+2.1	+25.0
Asia	128.34	+1.8	+19.9
EMEA	134.59	+1.1	+17.8
Europe	169.88	+0.4	+13.5
Eastn Europe	81.70	+2.2	+6.1
ME & Africa	85.46	+1.8	+22.1
Comp + Malay	227.30	+1.8	+19.8
Asia + Malay	126.00	+2.0	+16.6

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Mar 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.
Latest indices were unavailable for this edition.

AFRICA

AMERICAS

NEW YORK STOCK EXCHANGE PRICES

- X - Y - Z -

1999 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Price	Chg Prev. Close
63	51	Xerox	0.80	1.4	22	31712	57¾	54½	56⅝	+1½
77¼	54½	XL Cap	1.76	3.1	9	6386	58	56⅞	57½	+1⅝
43½	37½	Xtra Corp			10	865	41¼	38	40	+½
29¾	22	Yankee Eyp	1.38	5.4	22	40	25	25	25½	-¼
41¾	33⅝	York Int	0.60	1.5	12	3806	41⅝	39⅝	41⅜	+1
15	8⅛	Zapata			3	798	9	9	9¼	
26	20	Zenith Nat	1.00	4.3	20	37	23	23	23	
8	5¼	Zemex Inc	0.67	11.7		322	5⅝	[illegible]	5¾	
11	10	ZweigFd	1.20	11.4		1692	10½	10¼	10½	
8	8	Zweig Tot	0.84	10.2		429	8	8¼	8¼	

Price data supplied by Financial Times Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1999. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
= Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Apr 16	Apr 15	Apr 14	1999 High	1999 Low	Since compilation High	Since compilation Low
Industrials	10493.89	10462.72	10411.66	10493.89 (16/4)	9120.67 (22/1)	10493.89 (16/4/99)	41.22 (8/7/32)
Home Bonds	104.05	104.30	104.13	106.88 (13/1)	103.95 (1/4)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3528.70	3453.57	3443.32	3528.70 (16/4)	3063.90 (22/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	298.15	293.96	291.59	311.91 (4/1)	286.44 (12/2)	328.51 (8/10/98)	10.53 (8/7/32)

DJ Ind. Day's high 10632.80(10573.90) Low 10298.55 (10201.31) (Theoretical)
Day's high 10520.01(10500.74) Low 10386.61 (10378.63) (Actual)

Standard and Poors	Apr 16	Apr 15	Apr 14	1999 High	1999 Low	Since compilation High	Since compilation Low
Composite‡	1319.00	1322.88	1328.50	1358.64 (12/4)	1212.19 (14/1)	1358.64 (12/4/99)	4.40 (1/6/32)
Industrials¶	1580.07	1586.40	1591.54	1632.01 (12/4)	1461.72 (14/1)	1632.01 (12/4/99)	3.52 (30/6/32)
Financial¶	146.00	148.21	147.88	149.90 (12/4)	123.72 (9/2)	149.90 (12/4/99)	7.13 (4/9/74)
Others							
NYSE Comp.	624.90	622.89	625.67	633.13 (12/4)	578.62 (9/2)	633.13 (12/4/99)	4.64 (25/4/42)
Amex Comp	745.41	737.93	736.12	745.41 (16/4)	683.61 (4/1)	753.87 (22/4/98)	524.20 (16/7/98)
NASDAQ Cmp	2484.04	2521.77	2507.28	2598.82 (12/4)	2208.05 (4/1)	2598.82 (12/4/99)	54.87 (3/10/74)
Russell 2000	421.58	417.77	417.39	433.13 (11/1)	383.37 (23/3)	491.41 (21/4/98)	123.35 (7/12/93)

■ RATIOS

	Apr 16	Apr 9	Apr 2	Year ago
Dow Jones Ind. Div. Yield	1.51	1.56	1.61	1.53
	Apr 14	Apr 7	Mar 31	Year ago
S & P Ind. Div. yield	1.08	1.07	1.11	1.31
S & P Ind. P/E ratio	41.48	41.63	40.39	30.69

US DATA

■ MARKET ACTIVITY

● Volume (million)	Apr 16	Apr 15	Apr 14
NYSE	1002.4	1,084.6	952.010
Amex	44.483	47.000	49.045
NASDAQ	1036.1	1,236.1	1,426.5

NYSE	Apr 16	Apr 15	Apr 14
Issues Traded	3,539	3,545	3,566
Rises	2,056	1,785	1,742
Falls	1,008	1,273	1,282
Unchanged	475	507	542
New Highs	88	78	14
New Lows	44	68	68

■ NYSE TRADING ACTIVITY
Volume : 1,002,380,000

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Compaq	14,284,800	23¾	
AmOnLee	11,738,600	142⅞	−1⅞
Boeing	10,767,800	35½	−2⅞
Merck	8,443,200	77⅝	+⅝
EMC	8,294,200	107¼	−6⅞
LucentTch	8,174,800	58⅞	−1⅞
Citgrp	8,078,300	71⅝	+1⅞
Schimb	7,173,400	64	+3
Global Mar	6,900,200	12⅞	+1¼
Pfizer	6,622,800	127⅛	−2⅞

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
WMC ADR	16⅞	+2⅞	+19.7
Int Rect	10⅞	+1½	+16.8
CANTV	23⅞	+3⅞	+16.7
Kaydon	35⅞	+4⅝	+14.8
Downs			
GoldenCp	52⅝	−6⅝	−10.0
Elan ADR	66⅝	−5⅝	−7.9
SunGard	32	−2⅝	−7.8
UnionPlant	42	−3⅞	−7.3

■ NASDAQ TRADING ACTIVITY
Volume :1,036,067,000

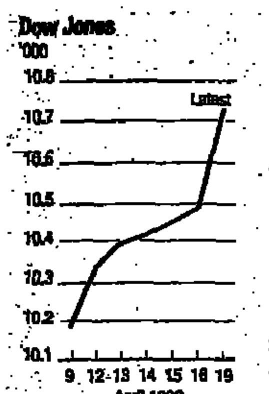
■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
SunMic	28,249,800	64⅞	−5⅝
Micsft	21,820,700	86⅝	−2⅝
DellCmp	19,222,800	38⅝	−1⅞
Intel	17,213,200	57⅝	−1⅞
Amz.com	15,779,300	190	+22⅝
CiscoSys	14,035,900	105⅞	−4⅝
MCIWcm	13,687,800	84⅝	−3⅞
Oracle	12,533,700	24½	−⅝
E trade	7,885,200	92⅞	−6⅝
FOREsy	7,095,800	24⅞	+⅞

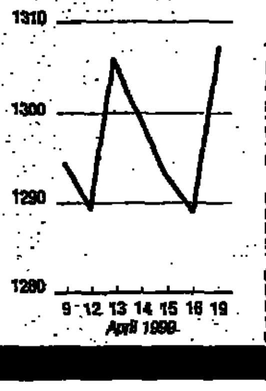
■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
SanSysADR	10⅝	+2⅞	+29.3
CredTech	15⅝	+2⅞	+22.6
BiolCmx	11⅝	+1⅞	+19.8
SecDynm	19⅝	+3⅝	+18.9
Downs			
Lason	32	−8⅞	−21.1
F&M Banc	32	−5⅝	−13.8
ONSALE	30⅞	−4⅝	−13.5
Romac	10⅞	−1⅞	−12.8

Dow Jones



FTSE Eurotop 300



JAPAN

[illegible]

FRANCE

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GERMANY

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UK

[illegible]

INDEX FUTURES

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Jun	1324.80	1332.20	+9.20	1332.40	1323.90	86,816	367,726
Sep	–	1335.80	–	–	–	84	5,482
■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Jun	16740.0	16620.0	−170.0	16840.0	16580.0	29,210	210,492
Sep	16820.0	16740.0	−80.0	16830.0	16740.0	2	5,681

Open interest figures for previous day

■ CAC-40 (200 x index)	Open	Sett Price	Change	High	Low
Apr	4294.5	4373.5	+83.5	4375.0	4294.5
May	4314.0	4361.0	+83.5	4355.0	4314.0
■ DAX					
Jun	5174.0	5262.5	+93.0	5272.5	5174.0
Sep	5277.0	5288.0	+98.5	5303.0	5277.0

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WORLD MARKETS AT A GLANCE

Country	Index	Apr 19	Apr 16	Apr 15	1999 High	1999 Low	Yield	P/E
Argentina	General	20017.54	19113.23	18162.29	19113.23 16/4	14484.90 14/1	4.12	13.4
Australia	All Ordinaries	3113.1	3099.8	3094.5	3113.10 19/4	2804.80 14/1	2.76	24.8
	All Mining	649.1	628.0	570.9	649.10 19/4	552.10 12/4		
Austria	ATX Index	1243.41	1208.21	1207.58	1243.41 19/4	1011.25 22/1	2.99	13.4
India	BSE Sens.	3481.43	3572.91	3357.12	3784.11 9/3	3122.94		
	S & P CNX 500	694.81	718.73	687.99	758.25 31/3	620.19		
Indonesia	Jakarta Comp.	508.14	478.53	447.48	508.14 19/4	372.91		
Ireland	ISEQ Overall	5318.97	5308.66	5339.88	5437.91 13/4	5084.95		

Argentina: Rocketing at midsession, boosted by rally in steel issues. Siderar, Acindar, Sidarca were up more than 14 per cent.

Australia: Miners continued higher while WMC and MIM Holdings recorded impressive gains. AAPT raced to premium over C&W Optus bid.

India: Rebounded after weekend drop following government resignation. Political consensus around budget helped ...

Indonesia: Foreign buying drove shares sharply higher as turnover swelled to Rp834bn. Semen Gresik jumped 21.7 per cent.

[illegible]

THE NASDAQ-AMEX MARKET GROUP

3:30 pm April 19

[illegible]

AMEX

3:15 pm April 19

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Wall Street gains put euro worries in shade

WORLD OVERVIEW

A powerful opening on Wall Street, merger moves in Europe and an interest rate cut in Asia kept the mood of the equity markets determinedly upbeat yesterday, *writes Jeffrey Brown*.

US equities were nearly 2 per cent higher on the Dow Jones Industrial Average at the close of the European trading day, and it allowed most bourses to brush aside any worries about the euro, which sagged to another record low against the dollar.

Frankfurt rose 2.1 per cent to more than recover, in one bound, the net 82-point slide on the Xetra Dax over the three previous sessions. Paris, constrained by a 5.4 per cent sell-off at market heavyweight France Telecom, ended 1.8 per cent higher.

A number of brokers turned more positive on euro-zone shares, notably Lehman Brothers, which lifted its European exposure at the expense of Asia. But, once again, it was mostly Wall Street that stamped its mark on the day.

Late on Friday, I/B/E/S, the information company, issued a particularly bullish report that fuelled the talk building up about bumper first-quarter earnings.

On the evidence of roughly a quarter of the constituents of the Standard & Poor's 500 index to have reported so far, I/B/E/S says: "We believe this quarter is tracking towards the strongest earnings surprise since the first quarter of 1995.

"It appears that Q1 1999 earnings growth will be better than 6 per cent on a year-on-year basis."

Not for the first time, Tokyo was the odd man out on a day of unashamed euphoria, slipping more than 1 per cent. In contrast, Hong Kong gained 2.2 per cent while both Seoul and Manila surged more than 5 per cent.

Manila climbed to a 20-month peak in some of the heaviest trading of the year, driven by capital inflows which allowed the central bank to reduce interest rates for the 10th time this year.

Dow bulls pull in horns after surge

AMERICAS

Bullish momentum swept blue chips higher on Wall Street at midday as investors shifted from the technology sector into cyclical and financial stocks, *writes John Labate in New York.*

The Dow Jones Industrial Average was carried 89 points higher in early afternoon trading, a rise of 0.85 per cent, to 10,582.92 – which represented a substantial pull-back after being as high as 10,765.74 at one stage. Those gains came at the expense of the Nasdaq composite index, which fell 76.80 or 3.09 per cent to 2,407.24. The Standard & Poor's 500 index turned back from early gains and fell 8.26 or 0.63 per cent to 1,310.74 in the early afternoon.

Last week's trend in favour of cyclical and industrial shares continued yesterday but other factors helped to broaden out the buying, including earnings figures by several major banks.

Citigroup, a Dow member, was up $4¼ or 5.9 per cent to $75¾ after reporting a strong quarter. BankAmerica rose $2 13/16 to $75 13/16 after reporting its own strong rise in earnings.

The breadth of buying was surprisingly strong as analysts saw gains in the mid-cap and small-cap stocks. By early afternoon, advancing stocks outnumbered decliners on the NYSE by a margin of more than 3 to 1.

Cyclical shares in the Dow continued to rebound from months of weakness on the prospect of better global economic growth in the coming months. International Paper rose 7 per cent or $4¼ to $59¼ and chemicals company Union Carbide gained $2 13/16 or more than 5 per cent to $55 7/16.

Internet stocks sold off sharply, with Amazon.com down $24 or 12.6 per cent to $166 and America Online off $16 1/16 to $126¼. Semiconductor producers and computer makers were mostly lower. Compaq Computer, which announced a senior management shake-up, was down $ 5/16 to $23 5/16.

Motor stocks were up on the day, with Ford Motor gaining $2 1/16 to $67⅝. Dana Corporation rose $4¼ or more than 9 per cent to $51 5/16 after it announced a stock buyback programme following the release of its quarterly results.

TORONTO climbed on the back of rising resource shares, with Wall Street also providing support. The TSE-300 composite index was 20.7 ahead by midsession at 7,033.30 in volume of almost 50m shares.

Twelve of the market's 14 sub-indices opened higher, led by a 2 per cent rise in the metals and minerals group and a 1.6 per cent advance in the oil and gas group.

The paper and forest products group and the gold and *precious minerals sector also* displayed early promise.

Analysts noted that investors were starting to move back into cyclical stocks, such as resources, as there is optimism that Asia's economic problems are starting to wane.

Alcan Aluminium put on 85 cents to C$44.95 and gold producer Placer Dome traded 20 cents higher at C$18.85.

São Paulo surges to fresh highs for year

SAO PAULO stormed ahead in early trading as investors took their cue from the powerful start on Wall Street.

By midsession, the benchmark Bovespa index was hitting fresh 1999 highs with a gain of 302 or 2.6 per cent at 11,731.

MEXICO CITY pushed deeper into record-breaking territory. Up 66 points on Friday, the IPC index was a further 106.53 or 1.9 per cent higher at 5,662.97 at midsession as the recent buying wave broadened under the impact of strong capital inflows. "It's all foreign buying. The locals are sitting this one out. Trading volumes are only moderate," said one broker.

SANTIAGO brushed aside inflation niggles to improve 2.76 or 2.2 per cent to 129.74 on the IPSA index at midsession, a fresh high for the year.

Brokers said that Enersis, in which Endesa of Spain is taking a stake, was the main centre of attention, adding 50 centavos to 226.50 pesos ahead of a board meeting later in the day.

Oil and gas fuel big advance

EUROPE

European markets rallied sharply yesterday, tracking a robust Wall Street and regaining strength after several days of consolidation.

Oil and gas issues were stronger following a rise in oil prices while Oslo and Copenhagen, heavily dependent on oil, posted solid gains. Telecoms, however, were weaker as investors thought a projected merger between Telecom Italia and Deutsche Telekom was facing *substantial regulatory* obstacles.

The FTSE Eurobloc 100 index, which covers leading companies in the euro-zone, closed 17.13 or 1.6 per cent higher at 1,068.10. The FTSE Eurotop 100, covering countries inside and outside economic and monetary union, climbed 46.94 to 3,024.28, while the broader FTSE Eurotop 300 settled 18.33 higher at 1,307.47.

FRANKFURT finished within a whisker – 2.8 points – of its session best, adding 109.38 or 2.1 per cent on the Xetra Dax index at 5,252.40.

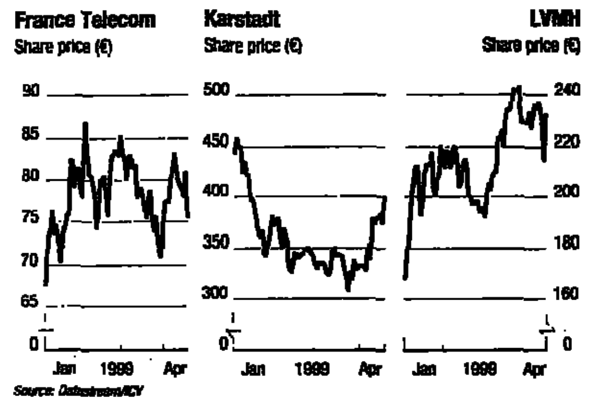
Karstadt, a strong market lately on persistent talk of corporate activity, shot ahead on news that it was in talks with Quelle, the privately owned mail-order giant. Against a session best of €405, the stock ended up €40.50 or 11 per cent at €406.50.

Deutsche Telekom maintained a fairly discreet stock market profile in the face of rumour and counter-rumour about the group's plans for a merger with Telecom Italia and possible bid for Sprint, the US carrier in which it has a 10 per cent stake. The shares eased 25 cents to €37.90.

Thyssen-Krupp recovered early falls following a downbeat trading statement. The steel leader ended 45 cents better at €21.46. Siemens jumped €3.08 to €67.38 on disposal talk.

PARIS resumed its rise after a pause last week, helped by Wall Street's sharp gains in early trading.

The rise in the CAC-40, up 78.43 or 1.8 per cent to 4,379.34, came despite a sharp loss in heavily weighted France Telecom. Shares conceded €4.40 or 5.4 per cent to €76.50 on fears the company could be sidelined if Deutsche Telekom opted for a merger with Telecom Italia.



Source: Datastream/ICV

For full FTSE European indices see Euro Markets page.

LVMH soared €21.50 or 10 per cent to €236.50, rebounding from a fall last week after it was axed from the FTSE Eurotop 100 index. Higher-than-expected first-quarter sales helped to boost the share.

BNP gave up €2 to €73.20 as investors lost patience with its slow-moving bid for Société Générale and Paribas. Axa, a supporter of the bid, said a secret pact signed with Paribas 10 years ago to protect each other from hostile takeovers did not apply today.

Some cyclicals that rallied last week stood their ground. Saint-Gobain was up €10.50 to €163.40 while Legrand *added €17.90 to €231.90.*

AMSTERDAM ended 10.95 higher at 559.39 on the AEX index in spite of determined profit-taking in chemicals that sent Akzo Nobel down €1.60 to €36.05 and DSM off €1.10 at €90.

Philips stayed firm ahead of Thursday's first-quarter results, improving €1.75 to €80.25, while Royal Dutch added €1.50 at €53.50.

Hagemeyer rose €2.45 to €31.60 on optimistic remarks from the trading group's management at the annual meeting. VNU added 95 cents at €36 after an upgrade at Deutsche Bank, which lifted its target price for the media group to €43.

Nedlloyd stretched its recent rally to a five-month high, gaining €2.20 to €26.50 as investors continued to see the shipping group as an undervalued cyclical.

The takeover speculation in the European telecoms sector continued to wash over on to KNP, which gained a further €2.40 or 6.3 per cent at €40.40. KLM jumped €2.05 or 7.8 per cent to €28.25.

ZURICH was higher but in thin trade marked by technical buying and a recovery in the pharmaceutical stocks after four sessions of losses. The SMI index closed 84.0 higher at 7,348.8.

Roche certificates, under strong pressure in recent sessions on concerns that the growth potential of the US market could dwindle, rebounded SFr260 to SFr17,520. Novartis was SFr32 higher at SFr2,391.

ABB, the engineering and technology group, put on SFr23 to SFr2,070. The company is expected to post another solid increase in *first-quarter profits tomorrow,* although a string of variables have made estimates widely divergent.

Among other cyclicals, Georg Fischer put on SFr6 to *SFr516 and* Algroup was SFr46 higher at SFr1,737. Both companies announced the opening of manufacturing sites in China.

Saurer jumped SFr52 to SFr857 and the textile machinery and motor components maker announced plans for a capital repayment to shareholders.

Swisscom gave up SFr4 to SFr524 in an uncertain *performance awaiting confirmation* of the Deutsche Telekom and Telecom Italia deal.

In the technology sector, Distefora, which had outperformed after announcing the takeover of several internet providers, tumbled SFr28 to SFr150.

HELSINKI seemed to be running out of steam, dragged down by heavyweight Nokia and cooling cyclicals. The Hex index closed 126.13 or 1.8 per cent lower at 6,755.86, one of the sharpest retreats in Europe.

Nokia, the most heavily weighted stock, fell €2.20 or 3 per cent to €71.70 ahead of third-quarter results due on Thursday.

OSLO advanced an impressive 3 per cent, outperforming most regional markets. The Total index was up 32.57 to 1,103.95, hitting a nine-month high on gains on Wall Street, a rally in Europe and a surge in oil prices.

Written and edited by Michael Morgan, Bertrand Benoit, Peter Hall and Paul Gregan

Johannesburg moves higher

SOUTH AFRICA

Johannesburg moved ahead as investors continued to buy commodity stocks and began moving into industrials.

The overall index rose 60.4 to 6,992.7 in turnover of R2bn. The gold index, rejigged after complaints that it did not accurately reflect the history of the sector, put on 10.3 to 1,032.1.

Industrials added 68.3 to 7,550.3 with South African *Breweries putting on 170* cents to R50.30.

Blue-chip buying boosts Seoul

ASIA PACIFIC

Sustained buying of blue chips by investment trusts and foreign investors sent **SEOUL** leaping ahead. The composite index rose 41.45 to 766.59, its highest level since July 1997.

Among the main gainers, Posco added Won12,000 to Won93,100 and SK Telecom Won144,000 to Won1,105,000, both running into their upper limits.

TOKYO stocks fell back after investors began to fear that a stronger yen could *hurt the country's exporters, writes Gillian Tett.* The Nikkei 225 average closed at 16,674.21, down 177.37 on the day, after moving between 16,583.64 and 16,858.28.

The *broader* Topix index closed 10.34 down at 1,332.69, while the Nikkei 300 index lost 1.55 at 267.47. Volume dipped to 751m shares from Friday's 778m. Losers outpaced gainers by 698 to 504, with 118 issues unchanged.

Traders said they expected the index to stay in the 16,500 to 17,000 range as the market was finely balanced between the differing stances taken by foreign and domestic investors.

Domestic investors have been heavy sellers of Japanese equity recently. Although some investors had hoped this trend would be reversed this spring when pension funds received their new allocations, there have been no concrete sign yet of a turnabout in their stance.

However, foreign investors have been heavily purchasing Japanese equity in *recent weeks, and there has* been no sign of this trend abating.

Issues with low prices, such as steel stocks and pulp and paper, for example, performed well yesterday due to heavy buying by foreign and individual investors. The pulp and paper sector rose 2.9 per cent, steel 0.9 per cent and non-ferrous metal 1.28 per cent.

Technology issues suffered due to concern about the impact of the weaker yen. Sony closed 1.4 per cent down at Y11,450. Toshiba lost 1.6 per cent at Y797, and Fuji 1.1 per cent at Y4,500.

MANILA rose to a 20-month high following a central bank cut for interest rates, the 10th reduction this year. Amid strong demand for shares, trading volumes surged to 4.45bn pesos from Friday's 3.1bn.

Blue chips led the way up. Metropolitan Bank rose 17.5 pesos to 372.50 pesos and PLDT 55 pesos to 1,275 pesos. The composite index ended 122.34 higher at 2,355.98.

SINGAPORE gained *ground in turnover that* came close to matching the record set in 1994. The Straits Times index closed up 72.89 at 1,842.31 after touching 1,892.17.

In financials, DBS foreign shares rose S$1.50 to S$17. Creative Technology created a stir in the electronics sector, jumping S$3.50 or 16 per cent to S$25.30.

JAKARTA soared, boosted by optimism over the general election expected on June 7 as well as falling interest rates and rallies in regional bourses. The composite index breached the 500 mark, surging 28.62 to 508.15.

Volume remained subdued on concerns about the status of joint-venture banks. The government is expected to make an announcement tomorrow on the cost of bank recapitalisation.

HONG KONG *rode a surge* of fund inflows through the 13,000-point level, only to fall back sharply on profit-taking late in the session.The Hang Seng index finished 276.14 higher at 12,766.44, off a peak of 13,079.50. It had taken just two trading days for the index to break from 12,000 to 13,000, a level not seen since since October 1997.

Turnover soared to HK$14.8bn, the highest level since government buying during a large-scale intervention set a record of HK$79bn on August 28 1998.

KUALA LUMPUR *flirted* with a 1999 high as investors were again encouraged by falling interest rates and a more bullish outlook for the economy. The composite index finished 16.01 ahead at 615.42, having touched 621.14, just below a 1999 intraday high of 621.57 set on January 22.

Analysts noted the demand came mainly from Singapore and Hong Kong-based funds, with local institutions taking profits on long-held positions.

THE DAY'S CHANGES

	% Change
Jakarta	+6.0
Seoul	+5.7
Manila	+5.5
Singapore	+4.1
Kuala Lumpur	+2.7
Bangkok	+2.4
Hong Kong	+2.2
Tokyo	-1.1

EMERGING MARKET FOCUS

Bombay rises as Delhi falls

The news that India's market-friendly budget would be passed this week, in spite of the fall of the government, lifted shares sharply yesterday.

The *benchmark* BSE-30 index rose 124 points or almost 4 per cent to 3,451.

Yesterday's rise follows a market bloodbath on Saturday when Atal Behari Vajpayee, the *prime minister*, lost a vote of confidence by a single vote.

The BSE-30 index, up 100 in early trading on Saturday, plunged more than 300 after the vote. It closed down 246 or 7 per cent at 3,327.

"The market priced in political chaos and disaster," said Rukhshad Shroff, strategist at Jardine Fleming. "The prospect of the budget being passed is a bright spot." However, he warned of huge volatility ahead.

Investors fear prolonged political weakness and instability whoever forms a government. The main opposition party, Congress, would need to rely on communists and a number of feuding regional parties to form an administration.

While the budget is now almost certain to survive, the fate of further reforms – insurance liberalisation, privatisation, subsidy cuts – looks bleak.

The political impasse may also prevent India from reaching a deal with the US on its nuclear deterrent.

Yesterday's modest recovery was centred on industrial stocks. Some look set to benefit from rising rural demand following a good harvest and firming commodity prices. Others may benefit from tax breaks in the budget that make it attractive for fund managers to buy high-yielding stocks.

Software and pharmaceuticals, which lost out heavily in the market slide, hardly bounced.

Pharmaceuticals, held back by *lacklustre results*, stood to gain from the old government's plans to reform price control. This now seems unlikely in the near future.

Software results, spectacular in percentage terms, met analysts' expectations, though they failed to surprise on the upside. The sector – which earns dollar revenues from exports to the US and Europe – is often seen as a safe haven in times of trouble at home. But not this time.

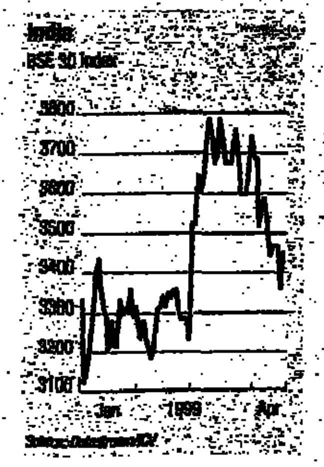
Speculators who had built up big long positions in software, expecting an influx of foreign money, have rushed to cover their short positions. They fear foreign inflows will now slow.

Analysts say the market as a whole is being supported by the strong rise in *other Asian bourses. The* benign global environment is also reflected in commodity prices.

However, foreign institutions are up in arms about the decision to open India's markets for the confidence vote on a Saturday, when most foreign funds are unable to trade. A similar situation occured six weeks ago, when the budget was announced on a Saturday.

"You are effectively closing out institutions from the market," said Fergus Fleming, managing director of HSBC Securities in Bombay.

Krishna Guha



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